REPORT
OF THE
FISCAL COMMISSION
1949-50

Volume Two

(WRITTEN EVIDENCE)

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GOVERNMENT OF INDIA

FISCAL COMMISSION

Questionnaire

PART I

SECTION A (i)

Introductory--Changes in the Economic Background since 1922-23

Q. 1. Do you consider that the economic background in the country has so altered since the Indian Fiscal Commission reported in 1922 that it necessitates a fundamental change in the approach to the problems with which the present Commission is concerned?

Q. 2 Will you list the principal changes in our agricultural situation in respect of (a) production, (b) consumption, and (c) international trade in agricultural commodities?

Q. 3 To what extent, if any, have these changes affected or are likely to affect in future, the pace and direction of our industrial progress?

Q. 4. What are the basic improvements in our agriculture and mining that you would consider urgently necessary as a support for any policy of intensified industrialisation?

Q. 5. What are the main directions in which our industrial development has progressed since the Indian Fiscal Commission reported in 1922? Please give your appreciation of the same.

Q. 6 To what extent do you think our industrial development still falls short of our essential requirements? Would you list our main deficiencies under the following heads:

(a) Lines of manufacture which you consider essential;

(b) Volume of production;

(c) Overhead and operative costs;

(d) Quality of management;

(e) Supply of capital;

(f) Availability of raw material, fuel and power;

(g) Availability of high grade technical ability;

(h) Supply of skilled and unskilled labour;

(i) Efficiency of labour.

Q 7. (a) Please give a broad analysis of the present position of small-scale and cottage industries in the economy of this country.

(b) What should be the relations between—

(i) small-scale and cottage industries and agriculture; and

(ii) small scale and cottage industries and large-scale industries?

Q. 8. Do you think small-scale and cottage industries have a significant role to play in the economic development of our country (a) under present circumstances and (b) in the long run?

SECTION A (ii)

Q. 9. Please enumerate the small-scale and cottage industries which you would like to develop—

(a) as subsidiary to agriculture;

(b) as supplementary to large-scale industries;

(c) as other independent units of production.

Q. 10. Which cottage industries you consider specially suited for export purposes?

Q. 11. Do you consider that protection to large scale industries has in any way affected small-scale and cottage industries? If so, please state how and to what extent they have been so affected.

Q. 12. What in your view are the main handicaps from which small-scale and cottage industries suffer at present? What steps would you recommend for the removal of these handicaps—particularly with regard to—

(a) the supply of raw material;

(b) supply of technical skill;

(c) their technique of manufacture;

(d) their structure and organization;

(e) supply of finance;

(f) marketing facility;

(g) any other form of assistance; and

(h) possible competition with large-scale industries?

Q. 13. What steps should be taken to ensure that the interests of small-scale and cottage industries are safeguarded, when trade agreements with foreign countries are negotiated?

SECTION B

Policy of discriminating protection and its application since 1923

Fiscal Commission.—In recommending a policy of discriminating protection, the Indian Fiscal Commission of 1922 had observed that discrimination should be exercised in the selection of industries for protection so as to make the inevitable burden on the consumer as light as was compatible with the due development of industries. Accordingly, the Commission laid down that an industry, seeking protection, should satisfy the following three conditions:—

(1) It must be one possessing natural advantages such as an abundant supply of raw material, cheap power, a sufficient supply of labour and a large home market;

(2) It must also be one which, without the help of protection, either, is not likely to develop at all, or is not likely to develop so rapidly as is desirable in the interest of the country; and

(3) Finally it must be proved that the industry will eventually be able to face world competition without protection.

The Commission also recommended some "supplementary measures" such as appropriate railway rates policy, reduction of coastal shipping rates and anti-dumping measures.

To implement the above policy, the Commission recommended the constitution of a permanent Tariff Board.

2. **Protection granted between 1924-39.**—The Government accepted the main recommendations of the Commission but instead of appointing a permanent Board appointed *ad hoc* Boards for the investigation of the claims of protection to different industries as and when necessary. The first Tariff Board was appointed in 1923 to enquire into the claims of protection to the Steel industry. Between 1924 and 1939, about 50 cases were referred to the Board for investigation. It included fresh applications for protection, applications for the continuance and revision of protective duties, removal of duties on raw materials and adjustments of tariff inequalities. In 1939 the following eight industries were under the protected list:—

1. Iron and Steel.
2. Cotton Textiles
3. Sugar.
4. Paper
5. Magnesium Chloride.
6. Sericulture.
7. Gold and Silver Thread and
8. Artificial Silk and Cotton and Artificial Silk Mixed Fabrics.

During the last war protection to these industries was continued under the Protective Duties Continuation Act. In 1947, on the recommendation of the Tariff Board, protection to Iron and Steel, Cotton Textiles and Paper industries was withdrawn. In 1949, Gold Thread and Magnesium Chloride industries also were similarly removed from the protected list. Of the industries which were in the protected list before 1939 only sericulture, artificial silk and mixed fabrics and sugar industries still remain in it.

3. **Safeguarding of Industries Act.**—In 1932-33, the Government of India received representations from numerous small industries asking for tariff protection against the competition of foreign and particularly Japanese goods which were being imported at abnormally low prices. An Act known as Safeguarding of Industries Act, was, therefore, passed by the Legislative Assembly in April 1933. This Act empowered the Governor General in Council to impose additional duties in all cases in which he was satisfied that foreign goods were being imported at such abnormally low prices as to threaten the existence of an established industry. No action could however be taken against Japanese imports under this Act as it was later discovered that it went against the spirit of the provisions of the Indo-Japanese convention. The Government, therefore, decided to impose the standard rate of specific duties, instead of the then existing *ad valorem* duties, on all such commodities as were being imported at abnormally low prices, and the Indian Tariff Amendment Act, 1934, was passed accordingly. In fixing the amounts of the specific duties the object in view was to restore as far as possible the fair competitive conditions which prevailed in the period before the depreciation of the yen.

4. **War-time industries.**—During the war, with the cessation of imports, many new industries were established in India. As early as 1940, the Commerce Member announced on the floor of the Assembly that industries which would be started during the war would be protected if and when necessary, provided they were organized on sound lines. In April 1945, the Government of

was constituted for a period of two years to investigate into the claims for protection or assistance to war-time industries. The terms of reference were as follows:—

Tariff Board, 1945, and Terms of Reference.—(1) That it (industry) is established and conducted on sound business lines; and

(2) (a) that having regard to the natural and economic advantages enjoyed by the industry and its actual or probable cost it is likely, within a reasonable time, to develop sufficiently to be able to carry on successfully without protection or State assistance; or

(2) (b) that it is an industry to which it is desirable, in the national interest, to grant protection or assistance and the probable cost of such protection or assistance to the community is not excessive.

As the long term tariff policy of the Government had not been finally decided, the Board was to recommend protection as an interim measure for a period not exceeding three years.

5. The total number of cases which were referred to the Board was 49. Within a period of 18 months, it reported on 42 cases including four cases of industries which were protected before the war and whose claim for continuance of protection the Board was asked to examine.

6. **Tariff Board, 1947.**—In November, 1947, the Board was reconstituted for a period of three years with the following two additional functions:—

(i) to report to Government as and when required, factors that lead to increase in the cost of production of Indian manufactured goods as against imported articles; and

(ii) to advise Government as and when required on measures whereby internal protection may be secured on the most economical basis.

During the period 1947-49, the Board was asked to examine the claim for protection of those industries which had not yet been fully examined by the previous Board and also a few new cases. The Board was asked to examine the need for continuance of protection to pre-war protected industries which were still in the protected list and also to the war-time industries, the period of whose protection was due to expire in 1949. During this period, the Board also undertook four important price enquiries. At present, there are about forty industries in the protected list.

7. As more and more industries came under the protected list, Government considered it necessary that continuous watch over the progress of protected industries should be kept by the Tariff Board. Accordingly a resolution was issued on 6th August, 1948 in which Tariff Board was authorised to conduct enquiries as and when necessary on the effect of the protective duties or other means of assistance granted and advise Government the necessity or otherwise of modifying the protection or assistance granted. In this resolution the following additional functions were also given to the Board:—

Additional Functions of the Tariff Board.—(1) to enquire, as and when required by Government, into the cost of production of a commodity produced in the country and to determine its wholesale, retail or other prices, and to report on the same;

(2) to recommend to Government, as and when required, measures necessary for the protection of India's industries from dumping from abroad;

(3) to undertake studies, as and when necessary, on the effects of *ad valorem* and specific duties and tariff valuations on various articles and the effects on tariff concessions granted to other countries; and

(4) to report to Government, as and when necessary, on combinations, trusts, monopolies and other restraints on trade, which may tend to affect the industries enjoying protection by restricting production, or maintaining or raising prices and to suggest ways and means of preventing such practices.

Q. 14. The Fiscal Commission appointed by the Government of India in 1921 recommended "that discrimination should be exercised in the selection of industries for protection, and in the degree of protection afforded, so as to make the inevitable burden on the community as light as is consistent with the due development of industries". On the strength of this basic principle the Commission decided that an industry seeking protection or assistance should satisfy the three conditions enumerated in paragraph 1 of the note. Besides tariff protection the Commission recommended also certain non-fiscal measures. Are you satisfied that the policy recommended by the Commission was fully implemented between 1923-1939? If not, please enumerate the main deviations from the policy.

Q. 15. Do you find any defects in the working of this policy? If so, please give details with suitable examples.

Q. 16. Do you agree with the specific conditions laid down by the Commission that normally protection should be accorded to an industry only if the conditions referred to in Q. 14 are satisfied?

Q. 17. Do you consider that the "supplementary measures" for the protection of, and assistance to industries as recommended by the Commission in Chapter VIII of their Report were adequate and well conceived?

Q. 18. In a Resolution passed in the Central Legislative Assembly on the 16th February 1923, the principle of discriminating protection was accepted as the basis of Government policy subject to the following general qualifications:—

(a) that the principle should be applied with due regard to the well-being of the community and to the safeguards mentioned in Q. 14.

(b) that in the application of this principle, regard must be had to the financial needs of the country, and to the then dependence of the Government of India on import, export and excise duties for a large part of its revenue.

To what extent, if any, do you think these qualifications affected the working of the policy of discriminating protection between the years 1923 and 1939? Please give your comments, if possible, separately for the following sub-periods:—

(i) 1923—29.

(ii) 1930—34.

(iii) 1935—39.

Q. 19. The changes set out in paragraph 4 of the note were made in the principle of discriminating protection in 1945 when the interim Tariff Board was established. What are your views on these deviations from the original policy as laid down in the Indian Fiscal Commission's Report?

Q. 20. Are you satisfied that this policy of 1945 is being fully implemented? If not, please indicate where, in your opinion, the defects in implementation lie.

SECTION C

Review of the effects of past tariff policy

Q. 21. Would you attempt a broad analysis of the effects of the actual policy pursued by the Government of the day on the growth and development of our major industries under the following heads:—

(a) Capital invested in the industry (paid up);

(b) Rated capacity;

(c) Output;

(d) Employment of labour (Technical and non-technical);

(e) Wage bill (technical and non-technical);

(f) Earnings of management;

(g) Profits earned and distributed;

(h) Ex-works price and retail price?

Q. 22. Would you make a detailed analysis on the above lines particularly in respect of the following industries:

(i) Iron & Steel,

(ii) Cotton textiles,

(iii) Sugar,

(iv) Paper,

(v) Matches?

Please give your answer for the following periods:

(a) at the time when protection was given;

(b) in 1938-39;

(c) in 1948-49.

Q. 23. (a) Please indicate the significant features, if any, in the structure and organization of the protected and assisted industries with respect to—

(i) the size of the units;

(ii) their location;

(iii) the development of combinations, horizontal or vertical;

(iv) the developments of ancillary industries; and

(v) any other aspect that you may consider it necessary to mention.

(b) Do you think that the form or manner in which protection or assistance has been given to these industries has had anything to do with these features? Which of these features are in the interest of our economy and which are undesirable?

Q. 24. If you consider that the undesirable features mentioned, if any, were due to any defects or deficiencies in the control exercised by Government over the protected or assisted industries, please point out such defects or deficiencies.

Q. 25. To what extent has the protection or assistance afforded to an industry resulted in—

(i) its progressive mechanization;

(ii) the introduction of new economies and other technical improvements; and

(iii) the optimum utilisation of indigenous raw material and bye-products?

Please illustrate with examples drawn from your knowledge or experience.

Q. 26. Has the protection or assistance received by our industries induced any substantial increase in the supply of—

(a) technical personnel required by the industries;

(b) skilled labour;

(c) semi-skilled labour;

(d) a stabilized industrial labour force?

Q. 27. To what extent, if any, has industrial research been initiated and fostered by the protected and assisted industries?

Q. 28. Do you consider that the revenue tariffs imposed in the past have had any appreciable effect on the growth and development of our industries and on the course of our export and import trade? If so, would you illustrate your finding with some examples drawn from the trade or industry of which you have knowledge or experience?

Q. 29. (a) What were the broad effects of the tariff policy pursued by Government between 1923 and 1939 on the volume, character and geographical distribution of our (i) import, and (ii) export trade?

(b) To what extent was the relative importance of our domestic and foreign trade affected by this policy during this period?

Q. 30. Do you think that the development of any of the protected industries was hampered by the policies pursued or the measures adopted by Government with regard to matters other than protection? Please give examples.

SECTION D

Factors in the formulation of a new Fiscal Policy

IMPORT CONTROL POLICY

Import trade control was first introduced in May, 1940, under the Defence of India Rules. Only 68 items were included in the first instance and they were mostly consumer goods. By August 1941, practically all descriptions of imported articles were brought under control and the office of the Chief Controller of Imports was set up in Delhi.

The import control policy was then governed by three main considerations, *viz.*, (i) the necessity for conservation of dollar and other hard currency resources; (ii) the shortage of supplies of goods in the exporting countries and (iii) the paucity of shipping space. About the middle of 1942, shipping considerations began to dominate all other factors in the administration of import trade control. By the end of 1943, the shipping position began to improve; but this was offset by procurement difficulties which were rapidly becoming the principal problem on account of the increasing shortage of supplies in the exporting countries.

2. With the cessation of hostilities, the shipping difficulty largely disappeared and the supply position also eased. In 1946, Government considered that import control could be sufficiently liberalized to meet the pent up demand for plant and machinery and consumer goods in the country. The system of Open General Licence was extended to a large number of commodities imported from all sources. The total value of licences issued during the 12 months ending March 1947 was about a thousand crore of rupees. Although the licences issued were not fully utilized, the result of this policy was to impose a heavy demand on the country's foreign exchange resources.

The entire position was reviewed early in 1947 and it was decided to limit imports to the current earnings of exports plus the transfers from the Sterling Balances as fixed by mutual agreement with the United Kingdom Government. Since then import control has been linked closely with foreign exchange control and the balance of payments position. Every six months foreign exchange resources are reviewed and the import programme for the next half year is so drawn up as to ensure that the disbursement of our foreign exchange is kept within these limits.

3. After the termination of the war, import control was continued by the Emergency Provisions (Continuance) Ordinance of 1946 for one year. As it was found necessary to continue control over imports and exports, the Import and Export (Control) Act was passed in 1947 giving powers to the Government to exercise the controls till the 24th March 1950. In September, 1948, an Import Advisory Council consisting of representatives of Trade Associations, two members of the Constituent Assembly and four non-officials representing interests not otherwise adequately represented, was set up with the Honourable Minister for Commerce as Chairman. The Council advises the Government in matters relating to the operation and administration of Import Trade Control. The Council meets every three months. A joint Import and Export Advisory Committee has also been set up to advise the Ministry in matters of common interest to the two bodies.

4. For the purpose of licensing, goods are divided into the following main categories:--

(a) goods under Open General Licence for import from soft currency countries;

(b) goods which are licensed freely from dollar areas;

(c) goods which are licensed freely from soft currency countries;

(d) goods for which no licences are granted from any source;

(e) goods for which no licences are granted from dollar or hard currency countries;

(f) goods for which import licences are granted within overall monetary limits from dollar and hard currency countries; and

(g) goods which are licensed within overall monetary limits from soft currency countries.

In drawing up these lists and in fixing the monetary ceilings due consideration is given to the more essential needs of the Indian economy and the need for the maintenance and development of industrial production. The essential consumer needs are also taken into account. High priority is given to the import of capital goods.

5. For the purpose of administration of the system of import licensing, the controlling authorities for the issue of licences vary in respect of different commodities. Licences for Part I (Iron and Steel) and Part VI (Machine Tools) are issued under the direction of the Industry and Supply Ministry, goods in

Part II (Electrical goods) are licensed by the Deputy Chief Controller of Imports, Calcutta. The goods covered by Part III (Textile Machinery) are licensed by the Deputy Chief Controller of Imports, Bombay; those covered by Part IV (consumer goods) are licensed by the Import Trade Controllers in Calcutta, Bombay and Madras and those covered by Part V (raw materials and heavy machinery) are licensed by the Chief Controller of Imports, New Delhi. Certain items in Part IV are also licensed at headquarters by the Chief Controller of Imports.

6. Licences are granted for each six monthly shipping period, namely, January-June and July-December. The validity of the licences for heavy electrical plant and other machinery goods is for a period of three years.

EXPORT CONTROL POLICY

Control over exports of commodities was introduced in India at a very early stage in the war. The list of items included at first was very small and the control notifications were issued under section 19 of the Sea Customs Act of 1878. The list was, however, gradually expanded and ultimately it became necessary to take special powers under the Defence of India Rules. The first notification under the Defence of India Rules controlling exports was issued in May, 1940. During the war, the main objectives of export control were (i) to conserve essential supplies for civilian consumption in the country; (ii) to prevent essential commodities from reaching the enemy and (iii) to secure fair distribution of available exportable surplus to the allied nations for the successful prosecution of war.

2. With the cessation of hostilities, the last two objectives lost their importance and since then Government's policy has been to liberalize export control consistent with our internal requirements. At present de-controlled articles number about 250. Three factors kept in view in framing the export control policy are (i) liberalization of exports, to secure larger foreign exchange required for food imports and also for the import of industrial raw materials and capital equipment vitally needed for industrial rehabilitation and development; (ii) conservation of dollar and hard currency resources and (iii) prevention of the practice of re-export of Indian products from other countries to hard currency areas, with consequent loss of dollar exchange and of bargaining strength in trade negotiations relating to commodities in critical shortage all over the world.

3. At present control over the export trade is exercised by the Government under the Import and Export (Control) Act of 1947. An Export Advisory Council has also been constituted to advise Government on the working of the export control policy. The Council meets every three months. A joint meeting of import and export advisory councils is also held to discuss matters of common interest.

4. The articles controlled are grouped into four parts *viz.*, 'A', 'B', 'C', and 'D'. Part 'A' includes commodities the supply position of which is very tight. As a general rule no export licences are granted for these commodities. Articles included in Part 'B' are food items and they are controlled by the Ministry of Food. Articles included in Part 'C' are those which are important from the point of view of Government supply or domestic requirements. Exports of these items are controlled by the Ministry of Industry and Supply. Articles controlled by the Ministry of Commerce are included in Part 'D'.

5. In regard to Part 'D' commodities, export is generally allowed on the basis of the established shippers principle (*i.e.* shippers who have exported a particular commodity to the country concerned during the basic period fixed for the purpose). A small percentage of the approved quota is also reserved for exports by new comers in the trade.

Export licences are normally endorsed as valid for a period of three months from the date of issue, except in the case of cotton piece-goods in which case they are valid for six months.

Q. 31. What in your assessment is the relative importance of the main changes in the pattern of our foreign trade which have taken place in the periods—

(a) 1939-45;

(b) 1946-49?

Q. 32. Would you briefly analyse the effects of the (a) legislative, and (b) administrative measures relating to the control and regulation of our foreign trade which Government have had to adopt during these periods on—

(a) our import and export trade; and

(b) the growth and development of our industries?

Q. 33. To what extent have these changes affected the fundamental premises on which the recommendations of the Indian Fiscal Commission 1921-22 were based? Please illustrate your reply with examples drawn from the trade or industries with which you may be concerned or about which you may possess adequate knowledge.

Q. 34. In the light of your analysis and appreciation what is the relative importance you would attach under present day conditions to governmental measures for the promotion of our trade and industry which may be broadly classified under the following heads:

(a) Fiscal measures;

(b) Non-fiscal measures?

Q. 35. Would you indicate the extent to which an appropriate tariff policy can further our foreign trade and assist in the development of our industries?

Q. 36. What, in your judgment, should be the objectives of tariff policy in the short period?

Q. 37. The minority report of the Indian Fiscal Commission 1921-22 expressed the view 'that there should be an unqualified pronouncement that the fiscal policy best suited for India is protection'. Do you agree with this?

Q. 38. If so, what principles and conditions would you lay down for regulating the grant of protection or assistance?

Q. 39. Would you, in the application of the formula or principles, if any, or in the administration of the policy in general, like special consideration or priority to be given to any particular classes of industry? If so, please name the classes.

Q. 40. Do you agree with the view that the grant of protection should not be confined to infant industries, but should be considered, if necessary even before an industry is established or when proposals for its establishment are under consideration?

Q. 41. (a) Please indicate your views on the various alternative methods of protection, *e.g.*,

(i) protective import duty;

(ii) bounty or subsidy;

(iii) system of pool prices, *e.g.*, the aluminium price pool which was in force till recently;

(iv) quantitative restriction of imports based on a guaranteed market for at least a percentage of domestic production (when such quantitative restrictions can be imposed without conflict with pre-existing agreements or commitments)?

(b) Which of these methods should be the normal method?

(c) Would you like the appropriate method to be determined in each case on its merits? If so, what are the conditions you would like to bear in mind in selecting the method of protection?

Q. 42. What should be the Government's policy and procedure where the situation calls for only safeguarding or anti-dumping measures, as distinct from substantive protection, whether for small scale or large scale industries?

Q. 43. (a) What place would you assign to export duties in the tariff system in the future?

(b) Would you advocate export control (by duties or otherwise) for the purpose of—

(i) safeguarding the domestic consumer against critical shortages;

(ii) conserving domestic supplies of raw materials for utilization by domestic industries?

Q. 44. What fiscal measures, if any, would you recommend to enable an established industry to maintain its exports?

Q. 45. Have you any comments on the method by which the Tariff Board at present fixes the quantum of protection (the method of comparing the fair selling price of the domestic product with the landed cost of the imported product)?

Q. 46. Would you recommend variations in duties to meet variations in import costs?

Q. 47. Where protection is to be given by tariffs, what are the considerations which you think should govern the choice between the various alternative forms of duty such as specific, *ad valorem*, compound, etc.?

Q. 48. What do you think of the utility and practicability of tariff quotas?

Q. 49. Would you like a minimum or a maximum duration to be laid down for protective measures?

Q. 50. Are you satisfied with the existing system of revenue tariff classification? If not, what are its defects and what changes would you suggest? Can the existing system be so modified as to reduce the burden on the consumer without any appreciable loss of revenue to the public exchequer?

Q. 51. Having regard to—

(a) the future structure of our foreign trade,

(b) the anticipations relating to the course of international trade (underlying the Havana Charter on Trade and Employment), and

(c) the broad lines of our Industrial Policy as laid down in the Statement of the 6th April 1948,

would you attempt a formulation of the objectives of our long-term fiscal policy?

Q. 52. In order to facilitate the objectives of our fiscal policy, do you think it would be necessary for Government or quasi-Government institutions to participate in foreign trade (a) in the short period and (b) in the long run?

Q. 53. If your answer to the above question is in the affirmative, what form of Government or quasi-Government organisation would you recommend? What would be the limits to their activities, and what conditions, if any, would you impose on their functions?

Section E

Non-fiscal measures for the promotion of trade and industry

Q. 54. The Indian Fiscal Commission of 1921-22 suggested several "supplementary measures" as an aid to the tariff policy which they had recommended. Would you enumerate the non-fiscal measures that Government should now adopt in furtherance of any approved fiscal policy both (a) in the short period and (b) in the long period?

Q. 55. In particular, have you any special suggestions to make as to how Government could facilitate—

(a) the supply of essential industrial raw materials, where these are not readily available in the country;

(b) the supply of essential plant and machinery;

(c) the supply of cheap fuel or power;

(d) the provision of cheap, adequate and quick transport both for the movement of raw and semi-processed materials and their finished products, made available under a scheme of rationalized freight-structure;

(e) the supply of technical personnel of different grades;

(f) the supply of technical information about industrial methods and processes;

(g) the supply of industrial finance, both for use as block and as working capital?

Q. 56. How and to what extent could the trade and industry co-operate with Government in the provision of such facilities?

Q. 57. Do you think any special types of organization would be necessary (a) to secure this co-operation between industry and trade and (b) to provide for the orderly supply of the facilities enumerated in Q. 55 or for the supply of such other facilities as may be considered necessary?

Section F

Fiscal Policy in relation to Commonwealth Preferences

[The principle of Imperial preference was introduced into the tariff policy of India on a substantial scale for the first time by the Ottawa Trade Agreement which was concluded on the 20th August, 1932. Prior to this date India granted preference only to the protected classes of Iron and Steel and Cotton Piece-goods imported from the United Kingdom. The Ottawa Trade Agreement of 1932 provided for the grant of concessions to imports of U.K. origin covering as many as 106 articles. Similar concessions were also received by India on her exports to the United Kingdom on a wide range of articles.

The Ottawa Agreement was supplemented by the Iron and Steel Agreement which was signed in September 1933, and both these Agreements were duly ratified by the Indian Legislative Assembly. The Indo-British Trade Agreement of 1935, which followed the Bombay-Lancashire Agreement of 1933 (Mody-Lees Pact) and was designed to supplement the Ottawa Agreement and was to hold good only during its currency, however, met with a different fate. This Agreement was intended to set out the general principles, which the Government of India desired to follow as regards the treatment of the United Kingdom goods competing with the products of a protected Indian industry, and appears to have been necessitated by the fact that the Ottawa Agreement had left untouched commodities which enjoyed protection in India. The supplementary Indo-British Agreement was, however, rejected by the Indian Legislative Assembly, and afterwards automatically lapsed when the notice of termination of the Ottawa Agreement was given in May 1936.

The Ottawa Agreement, which had never received a warm welcome in the country, came under heavy fire when the supplementary Indo-British Trade Agreement was under discussion. A review of its working was undertaken in 1936 and shortly afterwards the Legislature voted for its termination. Accordingly, a six months' notice of denunciation of the Ottawa Agreement was given on the 13th May 1936, but in the talks that immediately followed between the Government of India and the U.K. Government, it was agreed that the preferences granted under the Agreement would continue as a purely interim measure till a new Agreement had been arrived at between the two countries. After protracted negotiations, the Indo-British Trade Agreement of 1939 was signed on the 20th March, 1939.

The preferences that are being received by India on her exports to the United Kingdom and the preferences that are being granted to the imports of U.K. origin are at present governed by this Agreement, subject to the modifications introduced by the General Agreement on Tariffs and Trade as explained in a succeeding paragraph.

2. Under the Indo-British Trade Agreement, the United Kingdom granted preference at the rate of 10 per cent. *ad valorem* on the following articles, namely, bones, castorseed, coir yarn, cotton yarn (unbleached), raw goatskins, gram, groundnuts, teak and other hard woods, undressed leather, linseed, magnesite, oilseed cake and meal, paraffin wax, sandal-wood oil, soya-beans and certain specified spices; preferences at a rate of 15 per cent. *ad valorem* on certain vegetable oils, granite setts and curbs, dressed leather, jute cordage and ropes; preferences at a rate of 20 per cent. *ad valorem* on coir mats and mattings, certain varieties of cotton manufactures and jute manufactures; and preferences at specific rates on magnesium chloride, coffee, tea, rice and carpets. In addition India was assured of free entry for lac, raw jute, myrobalam, mica slabs and splittings and hemp when imported from any sources whatever. U.K. also agreed to maintain the existing preference on tobacco until the 19th August, 1942, and undertook to co-operate in any measures that might be practicable to facilitate the marketing of Indian tobacco in the United Kingdom.

3. In return for the above concessions, India granted to the United Kingdom preferences on 20 tariff items, namely, drugs and medicines containing spirit, cement, certain varieties of chemicals, drugs and medicines, colours and painter's materials, fents, woollen carpets, rugs and other woollen manufactures, iron or steel hoops and strips, iron or steel barbed or standard wire and wire rope, copper wrought and certain copper manufactures, domestic refrigerators, sewing and knitting machines and parts, certain varieties of electrical and other instruments, apparatus and appliances, motor vehicles and parts and cycles.

4. Under a special article known as the Cotton Article, the U.K. was also granted an immediate concession by way of reduction in the duties on cotton piece-goods but the continuance of that concession was made dependent, on the one hand, on the imports of piece-goods from the United Kingdom keeping within certain well defined limits. and, on the other hand, on the U.K. purchasing from India certain agreed quantities of raw cotton. The following basic rates were fixed for cotton piece-goods imported from the United Kingdom:—

17½ per cent. *ad valorem* for printed goods; 15 per cent. *ad valorem* or 2 annas and 7½ pies per lb., whichever is higher, for grey goods; and 15 per cent. *ad valorem* for other cotton piece-goods, and it was provided that if during any "cotton year" the imports of Indian raw cotton into the U.K. fell below a specified minimum quantity or exceeded a specified maximum quantity, and, alternatively, if imports of the U.K. cotton piece-goods in any "cotton piece-goods year" exceeded a specific maximum yardage or fell below a specified minimum yardage, the basic rates stated above might, in the subsequent year, be increased or decreased within a certain limit.

5. Besides, the U. K. agreed to extend to India any tariff preferences granted to any of the Dominions or Newfoundland. Southern Rhodesia or Burma, and reciprocally, the Government of India undertook to extend to the United Kingdom any tariff preferences granted to any of these countries except Burma

6. The Government of the Non-self-governing Colonies agreed to accord to India preferences granted by them to other parts of the British Empire with certain exceptions, and the Government of India, in their turn, undertook to grant most-favoured-nation treatment of the Non-self-governing Colonies.

7. Provision was made for separate trade negotiations with Ceylon pending which the preferences then given by Ceylon to India were continued and the Government of India agreed to give Ceylon the preferences given to other Non-self-governing Colonies.

8. Under the General Agreement on Traiffs and Trade, 1947, India agreed to reduce the margin of preferences granted to the U. K. on six tariff items and the U.K. on their part have agreed to reduce the margins of preferences granted to India on 13 items. In this connection reference may also be made to the provisions of Article 17 of the Havana Charter under which negotiations for elimination of preferences are to be conducted on a reciprocal and mutual advantages basis.]

Q. 58. What are your general views on the subject of Imperial Preference—particularly in the light of the principles underlying the General Agreement on Tariffs and Trade and the Havana Charter on World Trade and Employment?

Q. 59. The Indian Fiscal Commission of 1921-22 recommended that, if the policy of Imperial Preference was adopted on the lines indicated in their Report, its application should be governed by the following principles:—

(a) that no preference should be granted on any article without the approval of the Legislature;

(b) that no preference given in any way should diminish the protection required by Indian industries;

(c) that preference should not involve on balance any appreciable economic loss to India.

On the assumption that the scheme of Imperial Preference is continued, would you consider the above principles adequate? If not, would you formulate a comprehensive set of principles that may be applicable to the circumstances of the present?

Q. 60. Would you make a broad analysis of the effects of the preferences granted and received by India and U. K. respectively under the Indo-British Trade Agreement of 1939, as modified by the provisions of the General Agreement on Tariffs and Trade under the following heads:

(a) Expansion of trade;

(b) Customs revenues;

(c) Price levels of preferred commodities?

Q. 61. Please attempt a similar analysis in respect of the trade between India on the one hand and the other Commonwealth countries and the British colonies on the other.

Q. 62. In what direction and to what extent do you think the preferences on imports into India have affected the burden on the Indian consumer? Could you attempt a quantitative assessment with reference to some major preferred imports?

Q. 63. Is it possible to make a similar estimate of the extent to which our exports have expanded as a result of the preferences received by us in the U.K., the Dominions and the other British territories?

Q. 64. Apart from the economic advantages that may be derived from these mutual preferences, do you think that they confer any bargaining strength on India *vis-a-vis* (a) the United Kingdom and other Commonwealth countries and (b) non-Commonwealth countries? If so, please illustrate your answer with some examples.

Q. 65. (i) In the light of your replies to the above questions, would you formulate your views on the desirability of continuing the existing system of preferences between (a) India and the United Kingdom, (b) India and the other Dominions, and (c) India and the other British territories?

(ii) If you are not in favour of continuing the existing system, what modifications would you suggest?

SECTION G

Treatment and obligations of protected and assisted industries

Q. 66. (a) Do you consider that industries receiving protection or assistance from Government owe a special obligation to the rest of the community as regards the manner in which they render their services?

(b) If so, please state your views as to these obligations under the following heads:

(i) price policy and price structure;

(ii) wages and conditions of labour;

(iii) adoption of technological improvements;

(iv) initiation of research in the technique of production and distribution;

(v) training of apprentices and Government scholars and stipendiaries;

(vi) control over the distribution of the products of protected industries in certain contingencies.

Q. 67. (a) Is it necessary to stipulate that no protected or assisted industry should engage in any restrictive practice in respect of (i) production, (ii) distribution, or (iii) prices?

(b) What general principles would you suggest to regulate the right of association or combination of the different units in a protected or assisted industry?

Q. 68. Would you lay down any conditions regarding the financial structure of the industries receiving protection?

Q. 69. (a) Are you satisfied with the present arrangements for the standardization and control of the quality of industrial products? In particular, do you think that any special arrangements for the control of quality of the products of protected and assisted industries are necessary?

(b) If so, would you impose this duty on the protected or assisted industries through such special organisations as they may set up with the approval of Government or would you set up any special institutions outside these industries?

(c) What in your view should be the structure and functions of such organizations or institutions? Should they be professionally expert bodies or be composed of representatives of the different interests concerned?

Q. 70. Do you think that the obligations should be embodied in the relevant statutes dealing with protected or assisted industries or be left to be prescribed by the tariff-making machinery on an *ad hoc* basis, in each individual case of an industry seeking protection or assistance?

Q. 71. (a) Do you consider that any special administrative machinery is necessary to ensure that these obligations of protected and assisted industries are duly discharged? If so, what form of administrative machinery would you suggest?

(b) Or, would you prefer that this function should be entrusted to a special wing of the tariff-making machinery or of any other existing organization?

(c) Or, do you think that it will be necessary or desirable for Government to be represented on the management of protected or assisted industries in order to ensure that these obligations are carried out in the spirit in which they are conceived?

SECTION H

Organisation, methods and procedure

Q. 72. In the light of your replies do you consider that the existing administrative organizations will be adequate to deal with the problems of implementation that may arise out of Government's acceptance of a comprehensive policy as regards (i) fiscal measures and (ii) non-fiscal measures?

Q. 73. If not, what organisational changes would you propose in the existing machinery of Government dealing with these subjects?

Q. 74. (a) It has been suggested that it might be necessary to set up one comprehensive organisation (partaking of the nature of a Trade and Industrial Planning Commission) subdivided into suitable branches to deal with the planning and execution of various measures, relating to (i) tariffs, (ii) other fiscal measures, and (iii) non-fiscal measures, etc., Do you agree with this view?

(b) If so, would you indicate the type of organisational chart that you have in mind?

Q. 75. (a) Alternatively, would you prefer a series of specialised organisations dealing with these particular subjects?

(b) If so, how would you correlate the functions of these administrative organisations?

Q. 76. As a further alternative would you favour only one Technical Organisation dealing with Tariffs, leaving the other subjects to be dealt with by the different Ministries concerned more or less in the manner followed at present?

Q. 77. Whatever may be the structure of the planning and coordinating machinery that you may favour, do you agree that a specialised organisation for tariff purposes is essential to the implementation of a scientific tariff policy?

Q. 78. If so, would you agree with the recommendations of the Indian Fiscal Commission of 1921-22 that the Tariff Board or the Tariff Commission should be—

(i) a permanent body of high standing,

(ii) consisting of members who are of high ability, integrity and impartiality—preferably with a knowledge of economics and a practical acquaintance with business affairs?

(Paras. 302, 309—Chapter XVII).

Have you got any other views on the status and structure of an appropriate Tariff Board or Commission?

Q. 79. What, in your view, are the appropriate functions of a Tariff Board? Do you agree with the recommendations of the Indian Fiscal Commission of 1921-22 on this subject? (Para. 306, Chapter XVII.)

Q. 80. Do you consider that the existing functions of the present Indian Tariff Board as laid down in the Government of India Resolutions of November 3, 1945, November 26, 1947 and August 6, 1948 (summarised in the note to Section B) are adequate? If not, what changes would you suggest?

Q. 81. (a) Do you consider that the present structure and organisation of the Tariff Board are adequate for the discharge of the duties entrusted to it? (b) If not, what structural or organisational changes would you propose?

Q. 82. Do you think that the present procedure under which an industry's fitness for protection is considered only on application by that industry is sound? If not, how would you like it to be modified?

Q. 83. In any case, should the present procedure be modified so far as small and unorganised industries are concerned? If so, in what direction?

Q. 84. Where the procedure provides for an application for protection, should the application be addressed to Government or to the Tariff Board?

Q. 85. What modifications would you suggest in the present procedure to make it more expeditious?

Q. 86. Have you any improvements to suggest in the Tariff Board's present working methods (including the procedure for public hearings)?

Q. 87. Do you consider that the Tariff Board's recommendations should normally be accepted by Government and implemented by it?

Q. 38. (a) Having regard to the nature of the duties and functions entrusted to the Tariff Board, do you consider that it should be placed on a statutory basis?

(b) If so, should the statute lay down only the composition and functions of the Tariff Board or also include the general principles governing tariff policy, the general procedure to be followed in tariff enquries and the manner of enforcement of the obligations of protected or assisted industries?

(c) To what extent would such statutory provisions militate against flexibility? How could the possible risk of rigidity in procedure and administration implicit in statutory provisions, be either eliminated or reduced?

Questionnaire

PART II

Fiscal Policy in relation to Havana Charter on Trade and Employment and the General Agreement on Tariffs and Trade.

[Towards the end of 1945, the United States Government circularised for consideration by the peoples of the world a document called "Proposals for Expansion of World Trade and Employment". International economic co-operation which had, by then, already taken some concrete form in the establishment of such international bodies as the Food and Agriculture Organisation (F.A.O.), the International Monetary Fund (I.M.F.), and the International Bank for Reconstruction and Development (I.B.R.D.) was sought to be re-inforced by further measures dealing with trade barriers and discriminations. The proposals contained a strong plea for a concerted effort to release trade from the various restrictions imposed on it during the inter-war years with a view to securing the expansion of world trade on a multi-lateral basis and through it increased employment all over the world. Since this objective required that national policies in respect of International Trade and Employment should be in line with each other, it was proposed that an International Trade Organisation (I.T.O.) should be set up, through which member nations could promote national and international action to fulfil this purpose.

2. Following the Proposals of the U.S. Government, conferences on trade and employment at international level were held in London, Geneva and Havana between 1946 and 1948, and the deliberations of these conferences resulted in the following two documents:—

(1) General Agreement on Tariffs and Trade (with a Protocol of Provisional Application); and

(2) the Havana Charter for an International Trade Organisation.

3. G.A.T.T. Following the lead given by the U.S. Government negotiations were initiated at Geneva on April 10, 1947, by 23 countries (including India) sharing among them approximately 70 per cent. of the export and import trade of the world for substantial reduction of tariffs and other trade barriers and elimination of preferences on a reciprocal and mutually advantageous basis. These negotiations which ended on October 30, 1947, resulted in the framing of the General Agreement on Tariffs and Trade.

4. The text of the Agreement consists of three parts:—

Part I provides for general most-favoured-nation treatment, and deals with tariff concessions set forth in the schedules to the Agreement; Part II reproduces such commercial policy provisions of the Draft Charter adopted at Geneva as are necessary to safeguard the value of the tariff concessions; and Part III deals with territorial application, customs unions, and matters peculiar to the Agreement itself such as acceptance, modifications, amendment and accession.

5. So far as India is concerned, negotiations were conducted with 15 countries, and the concessions exchanged took the form of reduction in customs duties, reduction in preferential margins and binding of existing tariff treatment against future increase. They covered 12 items of export from India and 13 items of import into India. In offering concessions India adhered to three main principles:—

(1) Concessions are to be demonstrably in the interests of national economy, or, at least not injurious to it.

(2) They should not relate to products which are protected or which might claim protection during the next three years.

(3) They should not result in excessive loss of revenue.

6. Some of the provisions of the Agreement were initially unacceptable to India. These were subsequently modified. As a result certain deviations from the principles of most-favoured-nation treatment are now permissible so that India can maintain her present sanctions against South Africa, and India and Pakistan can grant concessions to each other without extending them to other countries. Similarly, although import restrictions can be used for protective purposes only with the prior approval of the contracting parties to the Agreement, it has been provided that such approval will be automatically given whenever the restrictions are designed to protect industries established during the period from 1st January 1939 to 24th March 1948 or are found to be necessary to protect industries engaged in the processing of domestic raw material or of the bye-products of domestic industries. Besides, permission has also been given to the use of quantitative restrictions on balance of payment grounds.

The Protocol of Provisional Application was signed on behalf of India on the 8th June 1948, and the Agreement came into effect provisionally 30 days after, on the 9th July 1948.

The Agreement is open to revision or termination after the end of December 1950.

7. **Havana Charter.**—The Havana Charter was signed at Havana on the 24th March 1948 by 53 nations. It is a document which prescribes a code of behaviour in international trading relations and provides for the formation of an International Trade Organisation (I.T.O.) as a new specialised agency of the United Nations. The aims of the Organization are to promote the expansion of international trade by fostering the increase of production and employment, and by encouraging the economic development of the backward areas. It sets forth a series of international commitments with respect to national economic policies regarding tariffs, trading restrictions, quotas, exchange controls, preferences, State trading, subsidies, cartels, inter-governmental commodity agreements, the international aspects of domestic employment policies, economic development and international investments.

The relation between GATT and the Charter is simply described. While the GATT is specific, the Charter is general, and the GATT is in a sense subsumed by the Charter, as the negotiations leading to the General Agreement are

deemed to be in pursuance of the Commercial Policy (Article 17) embodied in the Havana Charter When the Charter comes into force, it will supersede Article I and Part II of the General Agreement.

8. The Charter consists of 9 chapters (106 articles) which set out the specific obligations and immunities of a member in respect of international trade and tariff and other associated matters (such as production and employment).

It provides for, and facilitates, international investment for economic development and reconstruction, permitting at the same time such safeguards as may be necessary to ensure that foreign investment does not lead to interference with internal affairs or national policies.

It recognises the need for Government assistance to economic development and reconstruction in the form of protective measures; and while discouraging unwise use of such measures, permits its application, in certain cases, by negotiations with members affected, and, in others, with the prior approval of the I.T.O. This approval, however, is made automatic in respect of certain specified industries such as those which were established between January 1, 1939, and the date of the Charter, or those which are devoted to the processing of indigenous primary commodities.

The Charter further recognises that special circumstances may justify new preferential agreements between two or more members. Such proposals need I.T.O.'s approval by a 2/3rds majority (of the members present and voting). Approval, however, is made automatic if the proposed preferential agreement fulfils certain stated criteria or conditions, such as, contiguity of the contracting parties or their belonging to the same economic region, or the assurance of a sound and adequate market.

The Charter lays down a Commercial Policy covering questions of tariffs and preferences. It deals *inter alia* with the application of general most-favoured-nation treatment, reduction of tariffs and elimination of preferences, as well as quantitative restrictions The basic rule on quantitative restrictions is that they are prohibited. But there are specific exceptions relating to (1) the preventing or relieving of critical shortages of food-stuffs, (2) internal control schemes to safeguard agriculture and fishery products and (3) balance of payment difficulty. Quantitative restrictions when allowed, are to be used in all general cases in a non-discriminatory manner.

9. The structure of the I.T.O. consists of a Conference which is to meet once a year, an Executive Board and a Secretariat. The Executive Board is to consist of 18 members selected every three years by the Conference. There will be eight permanent seats on the Board to be held by eight States 'of chief economic importance'. Seven of these permanent seats in the first Board have been assigned to the United States of America, Britain, Canada, France, Benelux, China and India; the eighth has been reserved for the U.S.S.R., should that country eventually wish to join. The ten non-permanent seats are to be filled by election from among the other member States.

Besides, the I.T.O. will have the assistance of some Commissions, which are to be composed of experts, who will advise the Conference and the Board and will also conduct studies in international trade and commercial policy.]

Q. 89. Do you approve of the basic purpose and objectives underlying the Havana Charter on Trade and Employment?

Q. 90. Do you consider that the provisions and safeguards laid down in the Charter for the economic development and reconstruction of backward and under-developed countries are adequate for the requirements of India?

Q. 91. If not, to what extent, do you think these provisions and safeguards fall short of India's minimum requirements? Please illustrate your reply with facts drawn from your knowledge or experience.

Q. 92. In particular, do you consider that the terms and conditions proposed in the Charter for (a) the continued employment of existing foreign capital and (b) new foreign investment, are broadly in conformity with the requirements of India?

Q. 93. Are you in agreement with the broad lines of the commercial policy as set out in Chapter IV of the Havana Charter?

Q. 94. If not, would you elaborate your objections to those Articles of the Havana Charter bearing on commercial policy, which you consider detrimental to the interests of our industry? Do your objections relate to the short or the long period or to both?

Q. 95. Do you anticipate any injurious effects on our trade and industry on account of our acceptance of the obligations of the Charter (i) in the short period, and (ii) in the long run?

Q. 96. On a careful balancing of pros and cons, do you approve of India's adherence to the Havana Charter and her consequent participation in the proposed International Trade Organization?

Q 97. If not, what would be the broad lines of commercial policy that you would advocate for India; and in particular the fiscal measures that you would recommend for Government's acceptance?

Q. 98. If you agree that India should adhere to the Charter and join the International Trade Organization, have you any views to express on (a) the structure and functions of the International Trade Organization, (b) the procedure laid down for its working, and (c) India's position and status in the International Trade Organization?

Q. 99. Do you agree with the main principles underlying the General Agreement on Tariffs and Trade as laid down in Part I and Part II of the Agreement? If not, please detail your objections under specific heads.

Q. 100. Have you any comments to make on—

(a) the concessions granted by us to other countries in respect of imports into this country; and

(b) the concession received by us in respect of our exports abroad?

Q. 101. On a careful examination of these reciprocal concessions* do you consider that the provisions of the General Agreement on Tariffs and Trade have been, on balance, in the interests of India? If not, to what extent do you think these provisions have been at fault from India's point of view?

Q. 102. Have you any comments to make on the actual working of the tariff concessions granted by India to other countries since July 1948?

Q. 103. Have you any reasons to think that the provisions of the General Agreement on Tariffs and Trade are not being worked by other contracting countries in the spirit in which they were conceived? If so, please illustrate your reply with examples drawn from your knowledge or experience.

Q. 104. Other things being equal, would you or would you not favour the continuance of the tariff concessions granted by India to other countries beyond January 1, 1951?

* **Details of the reciprocal concessions are fully set out in the 'Memorandum on the General Agreement on Tariffs and Trade' issued by the Ministry of Commerce in July 1948.**

INDIAN CHAMBER OF COMMERCE, CALCUTTA

Section A

Changes in the Economic Background since 1922-23

Question No. 1.—

Ans: 1. Since the Fiscal Commission advocated a policy of discriminating protection, in 1923, important changes have taken place in the structure of Indian trade and industries. The history of industrial development in India has been one of marked growth of some of the organised industries under protection. The policy of discriminating protection, however, grudging and halting it might have been, proved beyond doubt that a liberal Fiscal Policy, can help a backward country like India to secure maximum utilisation of her industrial potentialities.

2. The impact of World War II exposed the weakness and insecurity of industrial structure of India and brought home the need for an all-round industrial development of the country, especially in respect of defence and basic industries. After the war the task of industrial reconversion was made more difficult due to the absence of capital equipment needed for replacement, renovation and reorganisation of the plant. Moreover, the post-war heavy burden of taxation and a gradual dwindling of the industrial profits failed to keep the industrial tempo at the desired level and led to a sharp decline in our industrial production.

3. The changes in the agricultural front, since the First Fiscal Commission, have been in the direction of aggravation of deficit economy, increasing pressure of population, growing trend towards uneconomic holdings, lower yield per acre and finally the loss of a major portion of the two most important commercial crops, *viz.*, jute and cotton to Pakistan as a result of partition. On the food front, India has gradually ceased to be a net exporting country and become a net importing country. The heavy import of food grains means in its turn a forced denial of essential capital goods for the maintenance and development of her industrial structure due to scarcity of exchange. Hence the need for an immediate reorientation of our agricultural policy.

4. India had been a proverbially raw materials exporting country to the industrially developed western countries, especially the U.K., in return for the manufactured products from them. The development of some of the important manufacturing industries has led to an increasing consumption of raw materials by the domestic industries and consequent decline in their exports. The impact of war changed materially the composition of India's foreign trade and the industrial production received stimulus and manufactured products figured in India's export trade. Due to partition India, instead of exporting large quantity of raw jute and raw cotton, is today importing from Pakistan, these two most important industrial raw materials. The consequent high price and inadequate supply have hard hit the jute and cotton textile industries. To sum up, we have lost some of our important export resources as a result of partition. The loss has to be made good by increasing exports of manufactured products. Our fiscal policy will have to be shaped in response to this new pattern of our foreign trade.

5. In short, the material changes in our economic background since the last Fiscal Commission reported emphasise the need for a rapid industrial development of the country under a well-planned and bold national economic policy. It is generally agreed that under the present circumstances strict interpretation of the conditions, which form the basis of the policy of discriminating protection, is not desirable. This is not to mean that protection should

be granted to indigenous industries indiscriminately. There must be some conditions for the grant of protection; they must be carefully thought out and applied with sympathy and understanding.

6. The new terms of reference of the interim Tariff Board recognise the need for granting protection to an industry on the ground of desirability from the point of view of national interest. This "national interest" clause gives much wider scope for fiscal assistance and protection to Indian industries, especially defence industries, heavy chemical industries, and other basic industries, than had been the case under the policy of discriminating protection. But still it is a subject matter of interpretation. Therefore, it is necessary that the Fiscal Commission should draw out a schedule of industries which it is essential to protect in the national interest. Such industries should be protected for a definite period by the levy of import duties fixed at a prescribed rate. The period of protection should be sufficiently long to enable the industries falling within the schedule to stabilise themselves. Protection to the scheduled industries should be granted without any previous enquiry by the Tariff Board. Only if a particular industry within the schedule finds the duty to be inadequate it might be revised after an enquiry by the Tariff Board. But in no case should there be any reduction in the rate of the import duty fixed by the Government. In drawing out the schedule, the primary consideration should be that the industries selected are either defence industries or key industries which fall under the category of means of production. The schedule of industries drawn up should not be a long one and additions to the same might be made from time to time by the Government of India.

7. In advocating a proper fiscal policy for the rapid industrial development of the country, the Committee would like to point out that industrialisation of a country cannot be secured by protection alone. Adequate attention has to be paid to certain other aspects such as incidence of taxation, incentive to saving and investment, etc. It is, therefore, to be considered whether the Fiscal Commission should not submit their recommendations to the Government on this aspect also, at the same time suggesting that Government might include a clause in the terms of reference of the Tariff Board to make recommendations for encouraging a steady flow of adequate capital to the protected industries.

Question No. 2—

Ans: 8. With the development of protected industries like sugar, paper and cotton etc., the domestic demand for industrial raw materials increased and stimulated internal production.

(*a*) *Production.*—The greatest single factor leading to a fundamental change in respect of our agricultural production has been the partition of our country. For example, in respect of food production, Pakistan mainly comprises of surplus areas. Pakistan's superiority in this respect over the Indian Union is particularly attributable to the location of major irrigation projects in Sind and West Punjab. Thus, though Pakistan has only 13 per cent. of the total cultivated areas of undivided India, its share in irrigated area is as large as 28 per cent. The deficit in respect of our food production, especially in respect of rice crops, was to the tune of 1-2 million tons during the inter-war period, and average annual imports from Burma were to the tune of 2¼ million tons. The impact of World War II led to a further decline in both acreage and production of rice. Against this decline in production of rice, the production of wheat could not serve as a compensatory factor inspite of the fact that the acreage under wheat increased by about 3 million acres in 1942-43 as compared to 1913-14.

(*b*) 9. *Consumption.*—On the other hand, the increase of population during the last decade necessitated an increase in food production to maintain even the meagre pre-war diet. According to the Census Report the total population in Indian Union alone was 298 millions in 1941. On the basis of excess of births over deaths, the estimated population figure in 1948 will come to 337 millions, an increase of about 13 per cent. Over and above; the actual shortage in food was aggravated by the currency expansion during the war resulting in a steep rise in prices. This price increase has been more prominent in the food sector in view of the chronic food shortage and the inelastic supply. This increase in food prices has not led to any increase in food production.

(*c*) 10. Regarding foreign trade, while undivided India had a traditional monopoly of the world export trade in raw jute, the Indian Union now figures as the world's heaviest importer of raw jute, depending upon Pakistan for about a million tons of the fibre to keep her jute mills going for 9 out of the 12 months in the year. A similar transformation has taken place with regard to raw cotton. The pre-war exports of undivided India mounted to 2·7 million bales, largely of short staple variety, whereas the Indian Union has to import at present about one million bales, mostly medium and long staple.

Question No. 3—

Ans: 11. On account of the above defects in our agricultural economy, we are facing a deficit in food supplies, which have to be supplemented from abroad by spending our scarce exchange resources. This has adversely affected our industrial development to a great extent by deferring imports of machineries and other urgent capital equipments. The impact of partition on our agriculture has been more far-reaching in its effects on our future industrial progress than any other group of causes. The future prospect of our jute industry depends entirely on our ability to increase the cultivation of raw jute within our own borders. The possibility of increasing the cultivation of raw jute in India is no doubt hopeful.

12. Partition has also affected our cotton textile industry. The cotton textile industry has come to depend more and more on imported raw materials due to internal shortage of the long staple variety. As a result of partition the major portion of the long staple quality has been lost to in West Punjab and Sind and our dependence on foreign sources for the supply of long staple cotton has increased.

Question No. 4—

Ans: 13. Agriculture must necessarily occupy an important place in our national policy because of the necessity for providing adequate food for the growing population and raw materials for our industries. Rationalisation of agriculture must be an integral part of any scheme of rapid and balanced industrial development in our country.

14. Any scheme for improvement in agriculture must begin with the conversion of the present uneconomic unit of production due to almost unending process of sub-division and fragmentation of holding into a consolidated economic unit of production, which would make our agricultural operations profitable. With the consolidation of the existing fragmented and scattered units and the introduction of scientific farming, existing primitive technique of production must be changed with the introduction of mechanical farming through the application of modern scientific implements like tractors, harvestors and thrashers. The possibilities of mechanical cultivation in India lie in the following directions:—

(1) Reclamation of land now covered with scrub jungle, and reclamation of land from weeds.

(2) Mechanical cultivation in the earliest stages in large blocks of lands.

15. Large scale farming and mechanical cultivation bring with them the necessity for utiiisation of manures and fertilisers on a much large scale than are used today.

16. We shall have to improve the technique of agricultural marketing to enable the agriculturists to secure fair price for their produce. Above all, for the improvement in tillage and technique of Indian agriculture, we shall have to make adequate provision for agricultural research and help the agriculturists to utilise its results.

17. Adequate provision must be made for protecting food grains against damages caused by insects and rodents. The need for increasing the acreage under commercial crops, especially jute and cotton, cannot be overemphasised. For achieving this end, the need for converting our agriculture from its existing stage of deficit occupation to a paying occupation is imperative.

18. First priority should be given to increase production of food through application of such measures as are likely to give immediate results. Government should not wait till long-term irrigation projects are completed; they should try to step up food production through other measures, such as supply of improved seeds, fertilizers, etc. Government should also try to connect remoter food producing areas to the various markets through a proper road system. Preservation of food through refrigeration, particularly in case of fish in West Bengal, would also be helpful.

19. India's resources in minerals of strategic importance, minerals of munition and defene armaments, base metals, alloys, fluxes, refractories and accessories-minerals may be regarded as adequate, in several but not all of them. India is deficient in tin, tungston, lead, zinc, nickel, graphite and liquid fueis. But in the case of the basic metals like iron, manganese and aluminium India is well supplied with a large excess. Ancillary minerals such as asbestos, cement, clays, mica, various salts, ores and other minerals of industrial utility are available in sufficient quantities for our needs, and in some we have an exportable surplus. We have failed so far to take full advantage of our mineral wealth. We should make a more realistic approach to this problem in order to evolve out a more balanced mineral policy for our country. Four of our minerals, mica, manganese ore, ilmenite, and monazite, are of great importance to the industries of the world, but unfortunately, the entire production of these minerals is exported in raw condition. It is possible to prepare micanite from mica splitting, extract thorium oxide and carium from monizite, smelt manganese ore and ferro manganese and manufactured titanium, white from ilmenite. Similarly, there are possibilities for the increasing use of mineral raw materials with the gradual expansion of our industries under a policy of intensive industrialisation of our country.

20. The serious obstacles towards full utilisation of these minerals is that no geological survey on a comprehensive scale, has yet been undertaken. It is a welcome feature that our National Government is alive to the responsibility of achieving mineral self-sufficiency to the maximum extent possible, and a policy of 5 year-plan for the expansion and re-organisation of the Geological survey of India was announced as early as April, 1947. A scheme for intensive industrial development implies a rational and well planned mineral policy which would aim at the proper development of our mineral resources in a systematic manner avoiding all wastage and properly conserving our resources in the national interest. Regarding coal, introduction of sand stowing and extensive use of machinery in place of open air coking will save much coal now lost in pillers, premature subsidences, mine fires and loss of thin top layers. Another serious defect is that very often good coking coal which should be used in metallurgy is used as boiler coal often in Railway

Engines. The conservation of metallurgical coal must be the first step in our future policy of industrialisation. There is also great scope for the production of innumerable bye-products vital to the development of industries. While remembering the fact the coal is still the primary source of power in India, concentration of coal is a serious handicap in the localisation of industry in India. In any scheme of rapid industrialisation of the country in the future, this defect in the location of our coal deposits will have to be remedied by finding out alternative and more economic sources of power. The development of hydroelectric resources would be an invaluable supplement to our power resources. In fact the industrialisation of the Indian Provinces, distant from the local coal fields will largely be determined by the provision of electricity as a source of power. By electrification we can economise nearly three-fourth of our coal consumption. Further, utilisation of low-grade coal in the generation of electricty would release a large number of by-products useful for the development of chemical industry. At the same time, it would facilitate electrification of the railways which is bound to give a great impetus to industrialisation and also encourage cottage industries in the neighbourhood of electrified lines.

21. India possesses rich deposits of manganese ore of excellent quality, which is partly utilised by the domestic iron and steel industry. We are also exporting manganese ore on a large scale. There is a considerable scope for expanded application of manganese in our domestic industry. The manufacture of dry batteries, containing local manganese ore, can be expanded to promote more efficient utilisation of the manganese ore we are exporting today. The development of a manganese chemical industry should be encouraged. Similarly, the domestic output of special manganese steel and of other alloys should be increased. The exports in the future should consist of ferro-manganese instead of raw ore. We should also try to improve the quality of manganese ore.

22. India is the lading producer of mica, with an output of more than 3/5th of the world's total supply. Today a large part of the total output is exported. In fact mica is one of the most important of India's exports. Internal utilisation of this most important raw material on efficient lines, should be encouraged.

23. From the foregoing analysis it will be seen that there is a wide scope for the intensive development of our mineral resources, which must be essential in any scheme for intensified industrial development of our country. There is a considerable scope for more efficient utilisation of these mineral resources within the country by organising new industries and encouraging expansion of some of the existing ones. There is need for a Mineral Research Institute for India, like Forest Research Institute to conduct, guide and co-ordinate mineral research.

Question No. 5—

Ans: 24. The Fiscal Commission in 1922 recommended a policy of discriminating protection which was accepted by the Government in 1923. A number of industries like steel, cotton, sugar and matches were granted protection. The growth and development in respect of these protected industries were achieved in spite of the fact that from 1927 onwards the Indian Tariff System has been patterned by considerations of Imperial Preference. The economic situation before the out-break of the second world war was that while India had developed some of her domestic industries, she depended on foreign countries for the supply of a number of manufactured gooods and the off-take of a substantial part of her output of raw materials.

25. The second world war created more urgent demand for industrial production than did the war of 1914-18. The result was a fuller utilisation of the productive capacity of the existing organised industries and establishment of new fields of industrial operations, including munitions production, the starting of the first air craft company and the coming into being of the nucleus of the Indian ship building industry.

26. But with all the impetus supplied by the war the overall increase in industrial output during the period of 5 years of war is roughly about 20 per cent. over what it was in 1938-39. This increase in industrial output and employment was achieved at a lower efficiency level during the war period due to deterioration of equipment, continuance of extra marginal firms in production, etc. Again it is to be noted that the progress registered even during the war has been almost in the direction of consumer goods industries to a striking neglect of production of capital goods industries. There has been progress both in pace and range of production since the outbreak of war, but it has been more a matter of placing orders with pre-selected producers rather than a serious scientific attempt at mobilisation of industrial resources of the whole country. But in spite of great opportunities presented by the second world war, we have not been able to make any rapid advance in industrial development, partly because of the Government's lukewarm attitude, partly because of disabilities like absence of basic industry, *e.g.*, chemicals and machineries. Perhaps the only gratifying feature to note in respect of Government's industrial policy during the war was the assurance given to the newly established defence industries and various other small scale industries that they would not be left high and dry after cessation of hostilities and that due assistance would be given to them during the post-war period.

27. Almost since the end of war, but more particularly from August, 1946, there has been a steady decline in industrial production. The important factors responsible for this decline in output are:—(1) the difficulty of obtaining capital equipment; (2) labour unrest; (3) transport difficulties; (4) shortage of coal; (5) insufficient raw material supplies, especially due to partition; (6) the paralysis of investment activity due to political and economical uncertainties. The partition of the country has been an important factor in contributing to some of these causes responsible for decline in industrial output.

Question No. 6—

Ans: (*a*) 28. The wartime increase in our industrial activity failed to bring about the much needed balance in our economy. In respect of occupational distribution of population, India stands still at the bottom of the ladder inasmuch as nearly two-thirds of her population is following primary occupations. The war-time increase in our industrial output has been mainly in the direction of consumer goods industries at the cost of neglect of capital goods. What is worse is that existing capital equipments were worked under heavy pressure and replacement or renovation of the existing plants had to be postponed indefinitely due to the exigencies of war. Scanty growth of basic heavy chemicals industry, ship-building industry, absence of a modern air-craft and automobile industry, machine tools and engineering stores and such others, largely account for the inability on our part to utilise to the full the opportunities for rapid industrial development created by war conditions. In the ultimate analysis it is the existence and development of capital goods industries which can ensure an adequate flow of consumers goods. Our fiscal policy must have to be shaped in response to the need for encouraging the growth and development of more capital goods industries in preference to consumer goods industries. Our commercial and industrial policy must be directed to attain this fundamental objective.

(*d*) 29. Modern industries in India owe their origin to the pioneering activities undertaken by the Managing Agents both British and Indian. The Managing Agents were also instrumental in the supply of a regular flow of trained and efficient Managers. There is no denying the fact that modern scientific management has come to play a more and more important part in recent years in respect of some of our best organised industries. But the degree of efficiency of management also depends to a great extent upon the level of efficiency of other co-operating factors, especially labour. Given the existing level of efficiency of labour, there is a limit beyond which any further application of modern system of scientific management will instead of increasing yield, lead to a diminishing yield. However, the fact remains that without the Managing Agents and their resources it would not merely be a difficult but an impossible task to attain the degree of industrialisation that we would like to attain in the next ten to fifteen years.

(*e*) 30. Capital in India has been proverbially shy. This shyness of our capital was accentuated by the absence of industrial banks or the great underwriting houses which were responsible for accelerating the pace of industrial development both in Germany and England. Capital mainly comes through savings and in India it has largely been drawn from the middle classes, who constitute an important investment section in our country. The crushing burden of high prices and of continued scarcity have told heavily upon their rate of savings. In the case of the very high income groups the heavy burden of income taxes have dried up their reservoir of savings. There has been a decline in investment fund in course of the last two years in India. And this has come about exactly at a time when steady flow of capital for investment is needed to increase our volume of industrial production.

(*i*) 31. Increasing cost of industrial production has been the most disturbing feature of India's postwar economy. Indeed this increasing cost today constitutes the principal bottle-neck towards expanding our export trade. The wartime and postwar inflation and the consequent higher cost of living all-round led to higher prices throughout the industrial field. Increased wages to labour unaccompanied by any increase in its productivity and increasing efficiency has today made the wage-bill the greatest single burden upon every industrial enterprise, which it has found impossible to carry out any longer without the risk of a further reduction of our industrial efficiency.

32. The form of our industrial organisation favours intensive employment of labour per machine because of comparative paucity of capital resources as against the method of intensive capitalisation pursued by the industrially advanced countries which have made the overall cost of production much more increasing today than what it would have been otherwise. The continual increase in the remuneration of labour in India unaccompanied by any increase in its productivity or efficiency is producing disastrous effects on the saleability of our goods at home and abroad.

33. Another important contributing factor leading to the existing higher cost of production has been the increasing price of raw materials, owing to world shortage of raw materials and the losses of many of our industrial raw materials to Pakistan.

Question No. 7—

Ans. (*a*) 34. Factory industry in Indian economic life is of comparatively recent origin. The basic fact of our economic life is that we have never had an industrial revolution like the one the West had during the later decades of the 19th century, although the impact of this Western technological revolution could not wholly be kept out of our borders. Though India figures as the ninth important leading industrial country in the world, the extent to which

factory labour dominates our industrial structure is not very great. While factory labour is mostly found concentrated in a few industrial centres, more than 60 per cent. is to be found in the two provinces of Bombay and West Bengal, labour engaged in small-scale and cottage industries is more evenly distributed over all the provinces of India. When about two-thirds of the total number of industrial workers are employed in small-scale and cottage industries, there is little doubt that small-scale and cottage industries form an important constituent of Indian economy.

(b) 35. Our economy is predominantly agrarian in character inasmuch as the basic occupation o about 70 per cent. of the total population in India is agriculture. And the dominant fact of our agricultural economy is that it is carried on in small-scale at an exceptionally lower level of efficiency, where the fragmented units of production make it a deficit occupation for India's teeming millions. Any scheme of rationalisation of agriculture demands solution of this basic problem of diverting surplus pressure of population from agriculture to more profitable fields of industrial occupations. In other words, industrial expansion is to be made an integral part of any plan for agricultural improvement and is to be carried on synchoronously with the re-organisation of farming. However, there is one important consideration, namely, the problem of tackling seasonal unemployment which is so prominent in our agricultural occupation and which brings in the role of cottage industries especially village arts and crafts carried on in peasants' cottages as subsidiary occupation and which serves as an addition to his total income.

36. Any scheme for rationalisation of agriculture, aiming at substantial addition to the total wealth of the country and improvement in the standard of living for India's teeming millions must also simultaneously take into account the re-organisation of the traditional cottage industries wherein the craftsmanship has attained a fairly high level, and which supplies a particular demand that cannot be eliminated altogether.

37. The fundamental objective behind any scheme for comprehensive national economic planning is to find out how best the standard of living in the whole country can be raised to a reasonably high level within a short time and with the means at disposal. For attaining this objective, the basic task is to show the best ways of attaining maximum output. The problem of more equitable distribution of our national dividend must from the very nature of our existing economy come later on. The role of large scale manufacturing industries in raising this maximum output must be vital and an important one. The economies of large-scale industry aided by power driven machinery, and operating with workers in large numbers congregated under a single roof, and specialising in all the variety of functions or operations in a given enterprise, are too obvious to need recapitalation.

38. It is, however, not to deny a specialised field of operations to our small scale and cottage industries. There is widespread popular misconception regarding the position of small scale and cottage industries *vis-a-vis* large-scale manufacturing industry. Competition of large-scale industry, Indian or foreign or both, is by no means the sole cause of the decay of cottage industries in India.

39. Over a large field there is no competition between small-scale and cottage industries on the one hand and large-scale organised industries on the other. Small and large-industries are not exclusive of each other, and both can exist side by side, and the economic progress of the country would be dependent on the development of both large and small scale industries and the efforts of the country are to be directed towards the harmonious development of both.

Question No. 8—

Ans. 40. Small-scale and cottage industries must have a definite place assigned to them in our future industrial set-up. If small-scale and cottage industries have to play any important part in our future economic development, they must be thoroughly re-orientated and established on modern scientific basis. In other words small-scale and cottage industries must try to absorb as much as possible the economies of large scale production through the adoption of scientific implements and other devices.

41. Since the necessary plant, machinery and equipment for organising large-scale industry are not forthcoming in the required quantity and variety for building up the industry, a great volume of demand must go unsatisfied, the country's wealth suffer retrogression, and its standard of living remain below a decent minimum. In such a situation small industries, especially village industries, may well be able to supplement country's minimum requirements which the more up-to-date industry is unable to provide for reasons just indicated.

SECTION (A)(ii)

Question No. 9—

Ans: 42. It is difficult to give a comprehensive list of the small-scale and cottage industries mainly due to lack of any precise definition under which these industries can usually be explained. Cottage handicrafts and industries may be classified under the following heads:—

(*a*) Peasant art and crafts carried on as subsidiary occupation by cultivators;

(*b*) the industries which supply the needs of the village carried on by a specialised group of workers like carpenters, blacksmiths;

(*c*) village art industries carried on by artisans with specialised skill at a standard of art which appeals to a wider market;

(*d*) Urban arts and crafts representing superior craftsmanship many of which still survive.

43. To go into greater details, industries which usually come under items (*a*) and (*b*), namely, flour grinding, rice pounding, basket making, *gur* making, fruit preservation, rope making, weaving of blankets, etc., should be developed as subsidiary to agriculture. Industries falling under groups (*c*) and (*d*) like handloom weaving, glass bangles manufacture, carpentry, toy making, ivory work, carpet making, silk industry, cutlery, brass metal works, etc., may be developed as independent units, because the people engaged in these lines of manufacture have already formed themselves into distinct social units, who by virtue of their tradition and inherited skill, have already earned certain amount of efficiency in their respective domains.

Question No. 10—

Ans: 44. The chances of developing exports of the products of cottage industries are extremely limited. The market for such products in a foreign country is limited by a number of considerations. It should always be remembered that foreign demands for such articles are sometimes extremely fickle. It is, therefore, difficult to assess before-hand the scope for such products in a foreign countries whose demand is limited by considerations of personal tastes and likings. Indian carpets, curios, ivory goods and certain types of clothes manufactured in South India from handloom industry may have extensive markets in foreign countries.

Question No. 11—

Ans: 45. It is wrong to presume that the policy of protection has, in any way, affected adversely or is likely to affect the interests of the small-scale and cottage industries.

Question No. 12—

Ans: 46. The artisans in our country are heavily handicapped in procuring raw materials for their products due to uncertainty in the supply of such raw materials, unreliable quality of the goods sold to them by the middlemen and often at high price charged. This position can be improved by organising different classes of artisans engaged in various cottage industries in our country under co-operative societies (on industrywise basis) which will undertake purchase and distribution of raw materials to the artisans.

47. The cottage industry workers in our country primarily rely on their inherited skill. As a result, their technique of manufacture is crude, often highly uneconomical. On account of this, many artisans have left their ancestral avocation to find out more remunerative jobs in the cities. Mechanisation of cottage industries through a wide and extensive use of electricity in the rural area will, undoubtedly, help the artisans a lot in building up the cottage industries of our country on a more scientific basis. Electrical power for this purpose might be made available from thermal stations built at convenient centres. Besides, demonstrations, touring classes, scholarships and exhibitions should be organised by the Government frequently in order to popularise among the artisans modern techniques, current tastes and fashions so that they may adjust themselves to the developments.

48. In the sphere of finance, it has been found from experience that modern banking institutions including co-operative credit societies have so far been unable to give substantial help to these artisans. The assets of these artisans are meagre. Besides, due to continued apathy of the Government there was hardly any guarantee uptill now regarding the prospects of immediate marketing of their products. What is, therefore, required in the matter of finance for such industries, is the establishment of a special banking institution, which can come in direct contact with these artisans and can render timely financial assistance after assessing the position and the actual requirements of each unit.

49. Closely allied with the problem of finances is the question of marketing. Due to ignorance and illiteracy of the cottage industry workers, their products are old fashioned lacking requisite finish and quality. Their crude technique of production has further inflated their costs of manufacture, which, often, have made it impossible for them to market such products at competitive prices. It is, therefore, felt that unless steps are taken to remove these defeacts any scheme to expand markets for cottage industry products is unlikely to bear fruit. It would be injudicious to foster cottage industries in those lines of manufacture, which have already been undertaken by large-scale enterprises.

50. It is difficult to discuss the actual nature and type of State assistance to cottage industries before examining the cases of such industries seeking protection under the changed economic set-up of this country. In any such examination the ideal of full industrialisation aiming at full employment should never be lost sight of. As such, any scheme for the development of cottage industries should only be of the nature of an interim measure trying to give employment to those, who have not yet been or are not likely to be absorbed by industries for some time to come. Government should use their utmost discretion in selecting cottage industries to be subsidised by them and should

also clearly demarcate their lines of production so that they may not unnecessarily compete with oragnised industries and thereby create fresh complications. Indiscriminate State help to revive or foster many of the moribund or dead cottage industries will simply create certain State subsidised social groups who will try to continue their existence on State help and local sentiments.

Question No. 13—

Ans: 51. The possibilities of foreign markets for the products of cottage industries cf our country are extremely limited. Kindly see answer to Question 10. It is difficult to assess beforehand the prospects of foreign markets for all such products. Steps can, however, be taken by the Government to push sales in foreign markets of such products, which have earned a reputation such as, Indian carpets, special types of handloom cloth, etc., though in a small way trade negotiations will undoubtedly be helpful.

SECTION B

Policy of Discriminating Protection and application since 1923

Question No. 14—

Ans: 52. It may be seen from the following cases that the Tariff Board could not go merely by the formula suggested by the Fiscal Commission, and had to pay attention to important external factors, which varied from industry to industry and even from one enquiry to the other evidently because economic conditions changed with time.

53. In the case of the steel industry attention was mainly paid to price problems and other factors which were wholly external to the Indian economy such as increasing potentiality, after the war, of foreign producers, exchange depreciation and over-valuation of the rupees.

54. For cotton industry, the need for preliminary protection arose to "safeguard" the interests of the industry from the injurious effects of the depression of the twenties mainly brought out by the "currency exchange" factors specially arising out of the depreciation of the Japanese Yen. The Cotton Industry was already an established industry enjoying full advantages of raw materials, home market and labour supply. The conditions laid down by the Fiscal Commission were, therefore, only formally examined with respect to this industry. In the second enquiry, the Tariff Board frankly admitted that the weightiest argument for protection to the industry was its immense national importance.

In case of sericulture industry, which was found to be strongly established for a long time, the only point to be carefully investigated was according to the Board, the adoption of such measure as would lead to increase in the competing power of this indigenous industry.

55. In case of sugar industry, the Board found the factors of natural advantage, market and labour as established. It also satisfied itself that the industry could not progress without protection. But the Tariff Board recognised as a "a matter of definite national importance" the increase and stabilisation of sugar industry.

56. In case of paper and pulp industry, however, the Tariff Board confined its enquiry strictly to the conditions laid down by the Fiscal Commission. The production of paper in India at that time was small (there was only one paper-mill) and there were only two varieties of bamboo pulp paper produced. The paper industry had to be developed almost from nothing—so the effects of external factors were negligible and un-important. The Tariff Board, therefore, made their decision straightaway on the basis of natural advantages and the intensity of foreign competition.

57. In case of Match Industry, the Tariff Board readily admitted that besides deserving protection from the point of view of triple conditions the "need for protection arises entirely from two causes, *viz.*, that the Swedish Match Company are importing matches at a price below the economic level and that there exists at present a very marked prejudice against Indian Matches."

58. In refusing the claim for protection of the Magnesium Chloride Industry in its first enquiry, the Board did not pay any consideration to its importance to the indigenous textile industry. Thus it would appear that the Tariff Board strictly adhered at the first instance to the formula of the Fiscal Commission. In the later enquiry however, the Tariff Board concluded that the industry could withstand foreign competition when left out of protection [illegible] was granted.

59. Thus it will be seen that in case of each industry asking for protection the policy recommended by the Fiscal Commission was adhered to, but strict as these conditions appear to be, some industries would not have been recommended protection unless the Tariff Board has made liberal interpretations of the conditions where protection was justified on other grounds.

60. Other main deviations from the policy laid down by the Fiscal Commission was undue regard shown to Imperial Preference in case of Steel and Cotton industries in spite of cold deliberation on the same by the Fiscal Commission.

61. The *Ad-hoc* Tariff Board, however, did not pay much attention to non-fiscal and other supplementary measures of assistance suggested by the Fiscal Commission.

Question No. 15—

Ans: 62. The policy of discriminating protection, as enunciated by the Fiscal Commission, is a compromise between foreign commercial interests and insistent demand for rapid industrialisation of our country. The Fiscal Commission's formula for selective protection has been hedged with rigid conditions, and a cumbrous and roundabout method of application, so that the necessary assistance came only after a considerable lapse of time. Protection to be effective must be prompt and adequate. But the dilatoriness in the application of this discriminatory protection has often made innocuous the inadequate assistance rendered to our industry on the oasis of such principle. Besides, there is adequate evidence to prove that a country can reach a very high level of efficiency in any industry without having sufficient supply of raw materials or an extensive market at home for such industrial products. The textile industry of England and Japan and a number of other industries of Germany and Japan are effective answers to those who share the majority opinion of the Fiscal Commission.

63. Moreover, within the limited framework of discriminating protection, the Fiscal Commission suggested discriminating preferential duties for British imports. Such countervailing factors had, in fact, made ineffective, in many cases, the small assistance rendered to our industries according to this principle. Even the three parts of the formula seem to be inconsistent. An industry fully satisfying the first condition, may not require protection at all, and therefore the question of satisfying the second condition does not arise. Again the third condition is redundant. Protection is given to make an industry strong which hardly needs any further nursing if the initial doses of protection prove to be effective It cannot be denied that the urgent need under the prevailing circumstance in India was to enunciate a policy to create the necessary industrial atmosphe Discriminating protection as it has been found from experience, lacks in t boldness. The case of each industry should have been judged with referenc

the necessity for industrialisation of the country as a whole. But, under discriminating protection, the case of each industry is examined in isolation, and the necessary protection is given accordingly and in a piecemeal fashion. The result has been that many deserving cases have been overlooked and turned down mainly because they could not somehow fit in the straight jacket of the triple formula. On account of the rigidity in the application of these conditions, this principle failed to render any effective assistance during the first fifteen years of its working, to "embryo" industries. As such, it failed in its primary objective, as a "State policy", for industrial development of India.

64. Suffice it to say that the industrial problems of our country during its transitional stage (from primary stage to full industrialisation) were not of raw materials, home market or labour, but "of the absence of an industrial atmosphere—confidence of capital, inertia and momentum of start". Thus when a fullfledged protection was needed to save our struggling industries from untimely collapse due to foreign dumping and competition only a rigid and selective protection was recommended and adopted with its dubious methods of assistance.

Question No. 16—

Ans: 65. It has been shown in answer to Q. 15 that the "straight-jacket" of "Discriminating Protection" would hardly fit in with any comprehensive scheme for industrialisation. It cannot be denied that certain established industries received considerable assistance for their development or to tide over the temporary crisis, especially during the inter-war period. But, due to the rigidity of the conditions, effective or timely assistance could not be given to many young industries. It is difficult to hold the Commission's contention that granting protection to new industries would encourage speculative element. The Commission, on the other hand, refused to see the simple fact that for many industries, the initial difficulties may be greater and more serious than the latter stages of development, and that for this purpose, the promising industries would require assurance of substantial help from the State before these could be started at all. Such help from the State should be unqualified in the first instance. The inherent fallacy of the triple conditions can be explained by reference to the case of our glass industry. To refuse protection to the glass industry on the ground that some other industry (namely Alkali industry) did not exist "was in reality begging the question of future developments which are bound to be cumulative in their process". Instances like this may be multiplied to show how "myopic" and unimaginative these conditions have been in their content and operation.

66. These conditions are further untenable on the ground that these restrictive measures in granting protection have failed to encourage diversification of our industries on the desired level. It is not an argument for "economic nationalism". It is merely an objective approach to solve the outstanding problem of full employment which is an inevitable sequence of greater industrialisation. Such diversification would also provide a good market for the products of other industries as, with the increase in the wealth producing capacity, the wealth-consuming capacity will also increase *pari passu*. Passing of the safeguarding of Industries Act in 1932-33 on the British model is a clear admission of the ineffectiveness of our selective protection policy.

Question No. 17—

Ans: 67. Protection by itself cannot ensure industrial development. The net effect of protection is nothing but complete or partial shutting out of imports and thus to curb the unfair and unwholesome competition offered by foreign manufacturers. Protection is only one of the means of industrialisation and forms only a part of the programme of industrialisation.

68. The Fiscal Commission did not suggest any measure to break the proverbial shyness of Indian capital. The Commission should have suggested a comprehensive policy for Industrial Finance with participation and guarantee of the State. Moreover, they do not seem to have appreciated importance of the increasing association of the industrialists with the Government to give full effects to the industrial policy of the country. Increasing realisation of this aspect, would lead to the formation of industrial associations in order to assure utmost industrial co-ordination and team work.

69. Fiscal Commission did not mention anything about the reforms of the Government stores purchase policy. This is a kind of indirect subsidy adopted by Government in order to intensify demand for indigenous products and to inculcate an element of prestige in them. Fiscal Commission appears not to have given proper emphasis on this kind of State assistance, presumably to avoid complications in the future scheme of preference for British goods.

70. In the field of industrial research and statistics, Fiscal Commission did not give any proper directive whatsoever to the Government. If the ultimate purpose of discriminatory protection is to rebuild our industries, it is quite imperative that necessary facilities should be granted by Government for imports of machinery, plants, equipments, etc, for developmental purposes. Fiscal Commission did not pay sufficient attention to this aspect of our import policy.

71. The world war I had also shown that a country should be industrially developed as a measure of preparedness against military emergency. The essential need therefore was the creation of an industrial atmosphere for the whole country as well as for the development of particular industries. The Fiscal Commission failed to lay down even general lines of a full scale programme for industrial expansion of the country, just to make more effective the new Fiscal Policy of the country.

Question No. 18—

Ans: 72. Protection inevitably imposes some burden on consumers. This burden is usually taken to be the price paid by the community for increasing the national dividend of the country and is surely to be compensated in the long run. The protective policy, however, should be so directed that the burden on the community as a whole is the minimum possible under the circumstances and, therefore, falls on the broadest shoulders.

73. Considered from a broader point of view, the burden on the community as a whole, which seems to be inevitable in the initial period of protection, tends to be immediately compensated by the increase of employment in the primary and secondary industries. Thus protection ultimately relieves the increasing pressure on land, and increases the purchasing power of the community by affording employment. Hence the plea of the consumers' burden should not be given disproportionate importance.

74. If the burden of protection on the community is judged by the trend of internal price level, the history of Indian prices during the inter-war period is a clear evidence of the fact of how the price of the products of protected industries gradually dropped down from year to year as the industries stabilised their position and reduced their cost of production.

75. A study of some of the major industries of India reveals that the consumers' burden in any comprehensive scheme for protection is not a long term phenomenon. Even in the short period the initial disadvantages to the consumers can be off-set by the immediate prospects of higher employment and increase in the wealth consuming capacity of the people.

76. The Tariff Board paid particular attention to the revenue aspect and the consequent loss on the grant of protection to any industry. They paid full regard to the wishes of the legislature in this respect.

77. It cannot be denied that if protection is effective (*i.e.* cuts down total imports substantially), revenue must fall off. But the fall in revenue during the years under review cannot be wholly said to be due to protection. Although the Tariff Board fully considered the effects of depression and reduction in the purchasing power of the people as possible causes of lower imports, they underrated the effects of these factors. Further, the Tariff Board did not take into full consideration other measures that the Government adopted or could adopt for augmenting the revenue to compensate for the loss due to levy of protective duty.

78. Revenue considerations should not be allowed to override Fiscal policies if they are aimed at the industrialisation of the country. Effective protection will no doubt cause loss of revenue; but there are sufficient reasons to believe that such loss will be amply compensated when the ultimate object of protection fructifies. The Tariff Board should have therefore made a liberal interpretation of the condition laid down by the legislature.

Question No. 19—

Ans. 79 The new principles of protection as laid down by the Government in their announcement in November, 1945, cannot be said to be a material departure from the principle of discriminating protection envisaged by the Fiscal Commission. A careful perusal of the conditions could establish the fact beyond all doubt that they are essentially the same as those of the discriminating protection. Inspite of the inherrent difficulties it cannot be denied that the new principles as laid down by the Government in November, 1945, could in no small measure render effective assistance to our industries provided the Tariff Board put liberal interpretation on them.

Question No. 20—

Ans. 80 The hopes that the Tariff Board will put a sufficiently liberal interpretation on the conditions laid down by the Government and apply them with sympathy and understanding in order to bring about a welcome reform in the actual application of the tariff policy have not been fully realised. The Tariff Board failed to co-ordinate the tariff policy with the industrial policy of the country as a whole.

81. That all the cases were not referred to the Tariff Board from amongst the applications made shows that the Department of Commerce have not yet given up the process of filtration before actually putting the cases before the Tariff Board. Perhaps the most serious disappointment has been experienced in case of three industries--Steel, Cotton and Paper—from which protection was withdrawn. The consideration for withdrawal could have been postponed to the future. Such withdrawal was also not justified when it was shown that the continuance of protection was not doing any harm to the interests of the consumers.

82. In most cases in which the Tariff Board has recommended protection under the Government's policy of November, 1945, the period of protection has been limited to the end of March, 1948 or of 1949. The rates of protection granted are the existing revenue duties at some-what higher rates. The Department of Commerce while considering the Tariff Board's reports, has preferred to maintain the protective tariff at the existing revenue rates and in some cases, decided to continue protection for shorter period than recomended by the Board.

83. It is not understood why the Tariff Board curtailed the three year period of interim protection as contained in the terms of reference to them. It is also

a mystery as to why the Government further curtailed the period recommended by the Board. Such a short period of protection does not lead to greater efficiency, but creates an uncertainty which prevents as much efficiency as would otherwise have been possible to obtain. Protection would thus become ineffective so far as development of the industry on sound lines is concerned.

84. The recommendation for grant of protection only by converting the revenue duty into a protective duty shows that the case of each industry was not carefully examined against the background or national economy. It has been unwise for the Tariff Board not to distinguish between the various industries on the basis of their importance to the ultimate industrial set-up of the country. Thus it appears, no consideration was paid to the general principles of national planning.

85. In all cases, except perhaps Cocoa industry the Tariff Board considered preference within protection. Although preferential duties on British imports had to be maintained because of the Trade Agreement, it was expected that in order to make the protective policy fully effective and to remove the anomaly of "protection to encourage imports", the Tariff Board would recommend to the Government that immediate steps would be taken to revise and remodel the existing trade treaties and agreements.

86. As a result, the industries that have received protection have not received it in adequate measure. The claims of some deserving industries have been rejected on wrong principles. The claims for protection of some new industries such as sodium sulphite, butter colour and aerated water, have been rejected as they failed to satisfy the condition laid down by the Government.

87. In almost all cases, Government have materially altered the recommendations of the Tariff Board. This was sure to diminish the effectiveness of protection to a very great extent. In view of this, it is claimed that the development of the industries if there has been any, is due more to the overall shortages of commodities and the absence of imports.

88. Looking to the other side, it must be admitted that the Tariff Board paid more consideration to the non-fiscal measures that the Government could adopt for the quick development of industry. They recommended subsidies, refund of excise duties, tax reliefs and facilities for supply of raw materials, research and industrial training. It is unfortunate that Government rejected the recommendations for subsidy and excise duties and have not yet taken adequate steps to implement the non-fiscal measures fully.

89. The formation of the Tariff Board only for two years (although defended by Government as an interim measure) showed that Government did not realise the importance of a permanent and statutory Tariff Board. Whatever be the fiscal policy of India, the Tariff Board should be recognised as the power-wielding body and Government's hesitation to set up a permanent Tariff Board is not justified.

90. According to the 1945 policy, the period of protection is to be extended for three years in the first instance for the industries able to get protection. Most of the industries were industries grown during the war. It is not possible for even a more established industry to develop on sound lines within a period of three years. Most of the industries given protection under the 1945 policy developed almost under artificial conditions. The expectation is based on an incomprehensive view of the actual affairs of the industries. In fact, it cannot be said even now whether the development during the transitional period was due to protection or to the factors of restricted economy. It cannot, therefore, be expected that an industry can develop itself to such an extent as to be able

to face foreign competition in normal times within this short period. The period of three years will again not ensure certainty of future prospects, unless Government give a definite assurance to the effect that if the industry does not develop to the desired extent, protection will invariably be continued.

91. Although the policy laid down that the industries started or developed during the war would be eligible for protection, no provision has been made to afford protection to industries that are started after the war as a result of the absence of imports and improved conditions in the supply of raw materials and labour.

92. Coming to the conditions, it will be appreciated that although couched in simple language they imply a complicated formula. The condition that an industry should be "established and conducted on sound business lines" has not been defined. In the absence of such a definition, the Tariff Board may apply different tests and conceptions of soundness at different times and even in case of different industries. Moreover, in an industry certain units may be conducted on sound business lines while others may not. In such a case the whole industry cannot be said to be conducted on unsound lines and thus protection denied to the progressive firms.

93. The first condition also precludes consideration of the case of various applicant industries from the point of view of national economy. The true policy of protection should be to encourage growth of all such industries that are important to the national economy. It will certainly to be the responsibility of the Government and the industrialists to organise and establish such industries on sound lines.

94. The element of costing that has been introduced is illusory. It would certainly be unwise to grant protection on the basis of costs in abnormal conditions. If again the Tariff Board were to compare indigenous costs with foreign costs, it would be an impossible task as reliable statistics of foreign industries are not easily available.

95. To get protection the industry must be "strong" enough to develop within a reasonable time. Government, however, decided to give protection only for three years in the first instance and it is not understood how they took this period to be a reasonable one to enable all protected industries to develop "sufficiently". Without any elucidation of the true nature of "sufficient" development, Government have again introduced an element of vagueness as to the real stage of development of a rising industry when it will be able to dispense with protection or State assistance.

96. Condition 2(b) lays down that an industry satisfying condition (1) would be given protection provided that the development of the industry is desirable in the interest of national economy. Thus far it was alright; but the Government imply that if protection is granted in such a case, the burden of such protection should not be excessive to the community. The last condition appears to be inconsistent with the first. It should be appreciated that in case of industries vital to the defence of the country, consideration of cost or burden would have to be waived in the larger interests of the country.

97. Government have laid down that the Tariff Board may also consider other forms of State assistance that would be admissible in view of protection. It would have been better if exact lines of State assistance that would be proposed, could be laid down. Thus it would have been wiser and more appropriate if the Tariff Board would have been asked to consider the case of industries from the point of view of protection as well as of other State assistance, if necessary.

98. It is however, gratifying to note in the preference that Government have asked the Tariff Board also to consider additional or alternative non-fiscal measures that should be taken to protect or assist the industry. The Tariff Board made full use of this freedom and dealt at length in their report about the feasible non-fiscal measures of assistance. In the changed economic circumstances, the importance of such measures has increased to a great extent. Nevertheless the new formula continues discriminating protection in a modified form; though it provides scope for liberal interpretation. In fact the terms of reference are so vaguely drawn up that their utility will depend on the extent to which they are liberally interpreted.

99. The most unfortunate defect of the new formula is that it has left protection as a "reward" to be sought after by the industries. The initiative has still to be taken by the industries and they have to be worthy of getting the 'prize'.

Question Nos. 21 and 22; 23; 24; 25—

Ans: 100. The Committee leave these questions to be answered by the respective industries.

Question Nos. 23, 24 and 25—

Kindly see detailed reply.

Question No. 26—

Ans: 101. With the increase in the number of industrial units and improvement in scientific and mechanical processes, there has been an increase in the number of skilled labour, semi-skilled labour and technical personnel employed in different industries, though in the last case shortage of personnel in the higher categories is still being experienced. Of course, the relative position of these different kinds of labour vary according to the nature of the industry and scientific progress made therein. The more room there is for mechanisation, the more scope there will be for technical personnel and semi-skilled labour. Where the machinery and the mechanical process is simple, it will require larger number of un-skilled labour.

102. As regards stabilised industrial labour force, it may be stated that as a result of concentration of different industries in different localities, several industrial towns have grown up which have become a permanent market for labour. We may cite the instances of Kanpur, Bombay, Ahmedabad, Calcutta, etc.

SECTION C

Review of the effects of Past Tariff Policy

Question No. 28—

Ans: 103. In India the revenue tariff has been essentially moderate. While the revenue tariff did render some assistance, it did not have any appreciable effect on the growth and development of our industries and on the course of our export trade. For instance, a revenue duty of 5 per cent. was imposed on the import of cotton piecegoods in 1875. The Lancashire interests clamoured that this revenue duty had a protective effect and be removed. Though the domestic manufacturers had an advantage, the duty could not be said to have had any protective effect. It did not materially affect Lancashire's exports to India. The Indian industry could not develop with the help of such a small tariff advantage. The Lancashire interests conducted strong

agitation and moved the British authorities for the removal of this duty. After prolonged controversy, the duty was removed in the year 1882. During the first World War, the Government of India, being in need of additional revenue, decided to raise the general rate of import duty. Accordingly the import duty on cotton fabrics was raised to 11 per cent. Thus the domestic cotton textile industry got some advantage over the foreign manufacturers.

104. As regards sugar, the revenue duty from May 1925 up to 28th February, 1930 was Rs. 4/8/- per cwt. and this duty was increased to Rs. 6 per cwt. from 1st March, 1930; and the same was raised to Rs. 7/4/- in March 1931 and to Rs. 9/1/- in September 1931. The indigenous industry did not develop during the pre-protection period.

Question No. 29—

Ans: 105. *Imports*.—During the period 1923-24 down to the year 1939-40, the total import trade of India fell by about Rs. 62 crores, which meant a decrease to the extent of about 28 per cent. It is to be noticed that the import trade during this period marks two distinct trends—one from 1923-24 to 1929-30, and the other from 1930-31 to 1939-40. The import trade of this country showed an increase of about Rs. 13 crores from Rs. 227 crores in 1923-24 to Rs. 240 crores in 1929-30. But after the year 1929-30, there was a sudden breach in this trend and the trade of the country fell by about Rs. 76 crores. It may be noticed in this connection that during this period some of the major Indian industries were granted tariff protection under cover of which it was possible for the infant Indian industries to develop on scientific lines and cater to the home market. This factor combined with the political movement launched in the country and the international economic situation gave a serious blow to the foreign industries which considered India as the best market for their products.

106. Although effective protection prevents imports of protected articles, increased prosperity leads to greater imports of unprotected ones, including machinery, raw materials and luxury goods. It will, therefore, be evident that the policy of protection affects the character rather than the volume of the import trade of a country.

107. In India protection has been a minor factor in determining the course of the trade, because the general level of protection was moderate and it was applied to a small number of industries. The protection of anti-dumping or safeguarding variety, merely maintained the *status quo* of the operating forces, as in the absence of such duties, imports would have been encouraged. Developmental protection has been applied only in the case of two or three industries like sugar, paper etc. The schedule of imports will convincingly show that the protective duties did not affect more than 25 per cent. of India's imports (1939-40) not more than 35 per cent. of the imports (1924-25) prior to the introduction of protective measures. But apart from all these facts regarding the nature and extent of protection given to Indian industries, other forces also have considerably influenced the course of trade during the years under consideration, namely, (1) the post-war (first war) currency upheavals involving devaluation in several cases, (2) the agricultural depression of 1926, (3) the industrial depression, etc. In this medley of forces, it is impossible to separate out the exact consequences of protection on the volume of India's foreign trade.

108. Though the fall in trade cannot by any means be attributed to the fiscal policy pursued during the last two decades, it must be admitted that protection influenced the changing character of our foreign trade. Many of the protected commidities show declining values in imports, while other sorts of imports like raw materials show a declining tendency and mineral products show considerable increase. Cotton and cotton manufactures show a decline

owing to the growth of the indigenous cotton industry, metals and ores and hardware have fallen owing to the rise of the iron and steel industry; sugar shows a drastic fall, no doubt caused by the phenomenal growth of the Indian industry. On the other hand, machinery has more than maintained its place; oils including minerals and lubricating oils have gone up owing to the requirements of the new industrialism; so also vehicles, especially owing to the motor transport; instruments, dyes and chemicals have registered substantial increases which are accounted for by the growth of Indian industries. It is, therefore, evident that the character of the import trade has changed in such a manner that protected goods now figure less in the import trade, while the growth of industrialism, with the accompanying rise in the standards of living of the industrial classes, has encouraged the imports of certain cheaper sorts of luxuries.

109. From 1924-25 to 1939-40 the total import trade of India was almost halved. Imports from the U. K. were reduced almost by 68 per cent. The relative position of the United Kingdom's competitors improved considerably. This heavy set-back in the position of imports from the U. K. was due to high prices prevailing in that country during a period of general impoverishment and the political boycott launched in India at that time.

110. *Exports.*—As regards exports, the value of the total export trade of India does not show wide variations for the first three years, there was a sudden breach in the trend noticeable for the year 1926-27, which indicates a fall in the value of India's export trade to the extent of about Rs. 76 crores. The most important factor which contributed to this breach was the heavy fall in the world prices of raw materials, particularly of cotton and jute. This new level in Indian export trade was fairly maintained until the year 1929-30, but by the year 1930-31 there was again a sudden fall in the trend and the total value of exports for this year amounted to Rs. 220 crores approximately, against Rs. 310 crores in the previous year. Thus there was a decrease in the export trade to the extent of about 29 per cent. This situation was further aggravated in 1931-32 when the total value of India's export amounted to Rs. 155 crores, that is, a decrease of 50 per cent. over the value shown for the year 1929-30. In the year 1932-33, the export trade of India touched the bottom level showing a decrease of about 57 per cent. in the volume of exports over the figure shown for 1929-30. In the subsequent years, the value of exports, however, increased considerably due to an increase in the volume of exported commodities.

111. During the year 1924-25 to 1939-40, it will be noticed that India's export trade shows the highest increase with regard to the United Kingdom, an increase from one-fourth of the total export trade to more than one-third. This marked tendency for India's export trade to rely more on the United Kingdom market seems to be the continuation of a tendency which started in a pronounced form with the beginning of the depression. At the same time that there was a distinct tendency towards decline in the share of principal European countries of India's export trade. Next to the United Kingdom, the share of the United States in the export trade of India also under-went a striking change. From about 9 per cent. in the begining of the period it captured a share of about 12 per cent. by the year 1939-40. After some alternative improvement and recession there has been a distinct tendency towards fall in the proportion of India's exports to Japan, from about 14 per cent. in 1924-25 her share fell down to as much as 6 per cent. in 1939-40.

112. To sum up, so far as the relative position of the different countries is considered, the U. S. A. had the best position, as, while the total export trade of India declined by about 40 per cent., the share of the U. S. A. declined by about 20 per cent. only and that of United Kingdom by about 27 per cent. and Japan by about 76 per cent.

Question No. 30—

Ans: 113. If granting protection for a specified period of time is intended to help the industry to stabilise itself on a level of efficiency so as to make it virtually independent of State patronage, State interference by various legislations within the period of protection is fully unjustifiable. The sugar industry can be cited as an illustration. Government control in respect of sugarcane prices has not been very wisely applied. The policy of fixation of minimum prices disturbed the natural economic adjustment of demand and supply.

114. The policy of the Government with regard to the cotton industry show some specific instances where it can be asserted that the interest of the country was sacrificed at the altar of the interests of the British manufacturers. The policy of levying import duty on the raw material gave indirect assistance to the foreign manufacturer and the British Government did not hesitate in the past to take recourse to this indirect measure to safeguard Lancashire interests, though openly they described it as a revenue duty.

SECTION D

Factors in the formulation of a new Fiscal Policy

Question No. 31—

Ans. 115. India's foreign trade, after suffering a setback during 1937-38, began to improve in the early part of 1939. The out-break of war, affected the volume and value of India's foreign trade to a considerable extent. India's foreign trade was reduced to almost half of its pre-war dismension.

116. The allied countries, being pre-occupied with production of war materials, increased their demand from India for several raw materials, foodstuffs and manufactured articles. Moreover, their inability to produce for export markets and withdrawal of European supplies from the markets of Asia and Africa increased the demand for Indian goods in the Near and Middle East. Shortage of shipping space intensified the tendency to rely on nearer markets and while England and America could not maintain their trade with the Eastern countries, India captured a good portion of this export trade.

117. The abnormal conditions during the war years inevitably subjected foreign trade to considerable vicissitudes and dislocation. The stimulation of exports in 1939-40, was mainly due to large purchases made by the Allies in the Indian market. In 1940-41 there was considerable shrinkage of exports due mainly to the loss of European markets and acute scarcity of shipping. In 1941-42 exports recovered in value owing to easier transport conditions and heavier demand from the U.S.A. and the Middle East. The decline in trade during 1942-43 was mainly due to the loss of Burma and the virtual closing of the Pacific.

118. It is significant to note that during the war export of manufactured goods increased while that of raw materials decreased. The value of exports to the U.K. was more than maintained and the balance of trade was in India's favour.

(b) 119. Since 1945 jute manufactures occupied the first place in the export trade of India, closely followed by tea, raw jute, raw cotton and wasted, together with certain manufactures, while in the import trade of the country, machinery occupied the first place, followed by grain, pulses, flour and raw cotton. After partition, India has now become a net importer of raw cotton and raw jute—foodgrains top the list in our import trade. There has been a marked change in the direction of our trade and the U.K. has come to occupy the first place.

120. Precisely, the following broad trends in the pattern of our foreign trade during the war and post-war periods may be noted.

121. The volume of trade has increased considerably, in view of the partial paralisation of foreign trade during the war. Import trade was restricted to a considerable extent during the war years and in consequence India enjoyed a favourable balance of trade but in years after the war the pent-up demand for industrial and consumer-goods sought to be satisfied and higher imports made the country's balance of trade unfavourable.

122. The frequent changes in the Import policy of India have flooded the Indian market with non-essential goods while the inflationary trend itself has not been perceptibly eased. Due to this reckless handling of India's capital funds, the balances held abroad were considerably reduced.

Question No. 32—

Ans. 123. The Government of India became alive to the serious menace of inflation on the country's economy and resorted to gradual relaxation of import trade control since July, 1948. During the war years, the import trade control policy was determined by the paucity of shipping space, requirements of war efforts and the need for conservation of exchange resources, particularly dollars and other hard currencies. With the cessation of hostilities, the Government of India considered that the import trade should be sufficiently liberalised to meet the demands for investment and consumer goods in the country. But the way in which the import trade control policy has been implemented has been disappointing and the twin main effects that have followed therefrom are firstly the mounting adverse balance of trade and secondly the demonstrably adverse repercussions on some of the indigenous industries. The relaxation of import control was too liberal and while it did accelerate the process of disinflation it has accentuated balance of payments difficulties and intensified foreign competition with Indian industries. The defect in the formulation of the policy of import trade control and the manner in which it has been implemented have (1) created uncertainty resulting in losses to importers and manufacturers, (2) blocked substantial amount of money and thereby created stringency in the money market, (3) frittered away valuable foreign exchange and (4) retarded the growth of the indigenous industries. These adverse repercussions would have been substantially mitigated if the Government of India had taken the commercial community into confidence while formulating the import control policy. The Import Advisory Council, which has been recently established to advise the Government of India in the formulation of import control policy, is not taken into confidence on the plea that it would lead to speculation.

124. During the war period there was considerable demand from the allied countries for supplies of war materials and the Indian industries got an invaluable opportunity to expand and improve their efficiency. The development however, was not commensurate with the encouragement received, due to the acute scarcity of raw materials and technical personnel together with the control imposed by the Government on new capital issues.

Question No. 33—

Ans. 125. The import and export trade of India as previously stated has undergone considerable change during this period, thus affecting the fundamental premises on which the findings of the last Fiscal Commission were based. The policy of discriminating protection adopted by the Government of India on the recommendation of the Fiscal Commission, stipulated the development of indigenous industries like, steel, cotton, sugar, paper, matches, etc., during the inter-war period and reduced India's dependence on foreign manufacturers. Imports of manufactured goods, which could be supplied by domestic industries, declined. Similarly, the export of raw materials, which could be processed by the indigenous industries, declined, Besides, India started exporting manufactured goods during this period to neighbouring countries. The world War II, by acclerating the pace of industrialisation of the country, strengthened the

tendency for the percentage of exports of manufactures to total exports to increase. The imports of manufactured articles decreased considerably; the import figures show substantial decrease in the percentage of manufactured articles from 60·8 in 1938-39 to 31·8 in 1944-45. Import of raw materials, on the other hand, increased during the period from 21·7 per cent. to 58·3 per cent. to supply the needs of growing industrial activity in the country. Before the 1939-45 war, raw materials headed the list of exports. Now their place is taken by finished articles. This was mainly because the markets in the Middle East came to depend largely on India for the supply of manufactured goods, as the war-ravaged countries of Europe were unable to export goods to these markets on the pre-war scale.

126. In order that these war-time gains may be estabilised we should formulate a suitable policy of protection with foresight and understanding and implement it with drive and vigour. A half-hearted and halting policy of discriminating protection as recommended by the Fiseal Commission and adopted by the Government of India during the inter-war period will not secure the rapid industrial development of the country. Fortunately, since the end of the war Government of India have slightly liberalised their policy as can be seen from the terms of reference of the interim Tariff Board.

127. The changes in our foreign trade were not foreseen by the Fiscal Commission whose recommendations were based on the presumption that the industrial development of India should be conducted within the frame-work of the British system and their primary aim was to satisfy the needs of Britain. They gave the reason as follows (Report P. 49) "India for many years to come is likely to concentrate on the simpler forms of manufactured goods, and there are precisely those in which the United Kingdom has the smallest interest ......Growing prosperity will bring a wider range of needs, and these will inevitably be translated into a more extensive demand for British goods". But their fundamental premise has been falsified in the first instance by the fact that India during the recent past has not only produced the simple forms of goods but also goods requiring higher manufacturing skill. Moreover, the last war has devastated the economic structure of England which would require still some more years to meet her own internal needs and during this period India must necessarily have to depend on other markets.

Question No. 34—

Ans. 128. In the formulation and implementation of the policy of discriminating protection attention has been mainly concentrated on the measures which are strictly fiscal in character and the non-fiscal measures have not been given the attention which they deserve. Our Fiscal policy should be carefully formulated, taking into account our economic requirements, and be supplemented by other non-fiscal measures; it must be remembered that "the mere imposition of protective duties, however, scientifically contrived, will not by itself produce that full industrial development which we desire". As a matter of fact if the policy of fiscal protection is not supplemented by an early revision of their taxation policy adoption of a suitable railway rates policy, anti-dumping legislation, abolition of shipping rebates, expansion of Indian merchantile marine, adequate and cheaper transport facilities, increased mobility of labour, it is doubtful whether the protection afforded would be able to promote rapid industrial development. The ultimate objective of protection is to assist the industries to be able to face world competition. If that purpose is to be fulfilled and the infant stage of the Indian industries is not to be perpetuated, it is essential that Indian industries should ultimately rely mainly upon their own resources, human and material. For this purpose, facilities for technical education should be extended and improved research work in specialised branches organised on a fairly adequate scale.

Question No. 35—

Ans. 129. India is industrially backward and the need for rapid industrialisation of the country is admitted. It is only with the help of a suitable policy of protection, fiscal and non-fiscal, that the industrial structure can be strengthened and diversified. Protection when granted after careful scrutiny by an expert body like the Tariff Board promotes most efficient utilisation of resources. It increases the national dividend of the country concerned and the purchasing power of its people. The growing internal prosperity of the country must necessarily lead to larger imports of unprotected articles, including machinery, raw materials and luxury goods. At the same time to pay for such imports there will be need to export more goods. It would thus affect only the character and not the volume of our foreign trade.

Question No. 36—

Ans: 130. The main objective of our tariff policy should be to promote rapid and balanced industrial development of the country and thereby increase the purchasing power of the people. We will have to develop our key industries. These comprise industries which are essential for defence purposes and those the products of which are indispensable for the development of other industries. Any large scheme of industrial planning would necessarily place India in the position of a net importing country. During this period it will be necessary for her to restrict imports of such consumer goods as may be produced in sufficient quantities within the country, so as to conserve her exchange resources as far as possible for the purchase of plant and machinery from abroad. Therefore, in the short period, our tariff policy should try to restrict the import of such consumer goods as are produced within the country or are non-essential. Besides, it should extend protection to infant industries on lines recommended by the Tariff Board. To promote rapid and balanced industrial development we will have to conserve our foreign exchange resources and utilise them to secure our most essential requirements.

Question No. 37—

Ans. 131. Yes. But we should consider the recommendation of the Minority Report of the Indian Fiscal Commission in its proper perspective. It would be wrong to suppose that the minority were in favour of an orgy of indiscriminate protection, implying inordinately high rates of tariff and indefinite periods of protection. They also stood for some discrimination but of a more reasonable variety which did not put unnecessary hurdles in the way of industrial growth. The principal objection against the policy of discriminating protection laid down by the Majority Report and implemented by the Government of India has been that the conditions for the grant of protection were sometimes rigidly interpreted.

132. Adequate and prompt protection is the best way for securing an all-round and balanced growth of Indian industries. The principal reason why India lacks modern industries is the absence of industrial atmosphere which includes the absence of scientific and technical education and research of business confidence among the industrial classes of a definite and positive policy on the part of the Government of the country in support of a rapid and comprehensive industrialisation.

Question No. 38—

Ans: 133. Theoretically the conditions laid down by the Fiscal Commission are sound, for it is desirable that the industry seeking protection should possess natural advantages, be in need of protection and be able to dispense with protection eventually. As regards natural advantages, the factors mentioned by the Fiscal Commission were illustrative of the type of advantages which an industry applying for protection must possess. "It was not intended by the Fiscal Commission that any one of these factors should be necessarily present, but that, on a general view of the position, of the industry, it should be established that the balance of advantage is in favour of the industry".

134. If such a liberal interpretation was put, there would have been little cause to grudge. In practice, this condition was strictly interpreted and some industries were denied protection. It is not always necessary that the industry seeking protection must have ample supply of raw materials. There is a flourishing jute mill industry at Dundee though raw jute is not grown in the U. K. Similarly, Lancashire cotton mill industry draws its raw cotton from foreign countries. The cotton mill industry of Japan depends upon imported raw cotton. Such cases can be multiplied. These industries would not have grown up if protection and state assistance was refused on the plea that there was no ample supply of raw material within the country. Similarly, it is not essential that an industry applying for protection must have a wide home market. If this condition was strictly enforced a number of British, German, American and Japanese industries would not have grown up at all and the world would have been poorer to that extent. This is true of most of the highly industrialised countries.

135. The main objective of protection is to secure rapid and balanced industrialisation of the country. The objective must be attained within reasonable time and at a minimum cost. Obstacles which are likely to delay the attainment of the objective or increase the cost must be promptly removed. Proximity to natural resources and possession of other natural advantages is very helpful for the development of an industry but a strict interpretation of this as a condition precedent to the grant of protection may retard the development of industries which are considered essential for the country. If the Tariff Board is satisfied that the balance of advantage is in favour of the industry, they should recommend adequate protection for the development of the industry. The Government of India should accept the recommendation of the Tariff Board without insisting on strict compliance of the condition. India with an ample supply of a number of materials, and an adequate supply of cheap labour and an extensive domestic market, can secure fairly rapid and balanced industrial development within a reasonable time, provided Government extend adequate and timely assistance, tariff and otherwise. Protection thus granted would promote effective and efficient utilisation of our economic resources. There need be no fear of uneconomic diversion of resources. Industries essential for national defence and key industries will have to be developed irrespective of the cost involved.

Question No. 39—

Ans: 136. As stated in the preceding section, the policy of protection should not be followed in an indiscriminate manner. Its guiding principle would be the importance of the industry, for the development of the country and for raising the standard of living of its people. The development of basic or key industries should be ensured in every possible manner as such industries would accelerate the pace of industrialisation of the country. Industries like Iron and Steel, Ship Building, Air Craft, Automobiles, etc., may be included in this category. Industrise essential for defence should also be given top priority because it is essential that the country should be equipped with defence requirements so that in case of a war she may not have to depend on others to defend her own frontiers. (Kindly also see para. No. 6 of the reply to Question No. 1.)

Question No. 40—

Ans: 137. Yes. It must be remembered that the industrialists have to incur heavy costs in connection with the establishment of an industry and it would be unrealistic to presume that they would be willing to incur such costs if there is any uncertainty regarding the grant of protection. To remove this uncertainty Government's policy should be laid down in clear terms sufficiently in advance.

Question No. 41—

Ans: (*a*) (*i*). 138. The imposition of a protective import duty is the common method of granting protection. This method of protection was adopted

in respect of a large number of Indian industries like cotton textiles, sugar, paper magnesium chloride, etc. When protection takes the form of an import duty it is determined by the difference between the fair selling price of the domestic manufacturer and the price charged for the competitive foreign products. The duty attempts to bridge the difference between the two prices by raising the price of the imported material. In short the import duty helps to raise the prices of the protected articles and thereby makes it worthwhile for the domestic manufacturers to undertake production or maintain and extent it. The rise in prices imposes a burden on the consumers and involves sacrifice of present advantages for future gains. With the improvement in the efficiency of the domestic manufacturers and reduction in their cost of production, the import duty is gradually reduced and eventually removed. The burden of protection, where it takes the form of an import duty, is borne by the consumers of the protected articles and is therefore more equitably distributed. Moreover, the method of levying protection leaves adequate scope for the establishment of new units in the protected industry and thereby helps to accelerate the pace of industrialisation. Besides, import duties being on the credit side of the budget would not give rise to any budgetary problem.

(a) (ii). 139. The help which subsidy gives to a protected industry is more definite and valuable in promoting development. Besides, in the case of subsidy, the price of protected articles does not rise and hence consumption is maintained. This form of protection is of special significance where the protected article is a raw material of an industry. In such a case the cost of production of the industry using the protected article does not rise and hence its competitive capacity is kept unimpaired. The burden of subsidy is borne by the general tax payers and not by the consumers of the subsidised article. Further, subsidies are more convenient to administer. There are certain disadvantages in the use of subsidy or bounty as a method of protection. It creates budgetary problems; Government have to find suitable sources of revenue which would not have adverse effects on the economic development of the country. A rich country with a high national income will be in a better position to use subsidy or bounty as a method of protection. Besides, the advantage of subsidy is confined to the units engaged in the process of production; it gives no spur to the establishment of new ones. Further, subsidy or bounty as a system of protection cannot be used in the case of industries manufacturing products which are not uniform in size, quality and varieties. Again bounties may lead to overprodutcion much sooner than tariff methods because while excessive production under a system of tariffs must involve businessmen in losses, bounties might provide an easy way of recouping losses.

(a) (iii). 140. The system of Pool prices is practically no solution of the problem and is merely of the nature of a stopgap. The price pool of the imported goods and of the indigenous products would not satisfy the objectives of protection. It might in the meantime, until the home industry is well established, bring some relief to the consuming public by bringing down the price level of imported goods. Moreover, the possibility of making the foreigner pay, which is generally in the case of countries with an elastic demand for foreign imports, would not be feasible as the pool price would increase the price of indigenous products and to that extent could not enable the people to avail of the benefit of protection to the full extent.

(a) (iv) 141. Quantitative restriction of imports has to be resorted to when tariff protection fails in securing its objects. Efforts of Tariff protection may be centralised if the burden is borne partly by the producer ot the foreign article and or his sales agents. Prejudice against the indigenous article may also offset the effect of tariff protection. In such cases, use of quantitative restriction would be an effective method of protecting indigenous industries frcm severe foreign competition.

(b) 142. The use of a particular method of protection will depend upon the condition of the industry seeking protection, the type of goods manufactured

by it, etc., and the Tariff Board will be able to suggest the most suitable form in individual cases. Tariff may be more frequently used for granting protection to indigenous industries. Where import duties prove ineffective import quotas should be utilised as a supplement. If the article produced by the industry seeking protection constitutes a raw material of another indigenous industry and is uniform in size and quality, the protection may take the form of a subsidy or bounty. Protective import duties and quantitative restriction of imports, the former added with the latter in the short run, would be the normal method of protection.

(c). 143. The appropriate method of protection should be determined by the Tariff Board in each case on its merits after a careful inquiry. The conditions to be borne in mind in selecting the method of protection are as follows:—

(1) It should be prompt, adequate and effective; it should enable the indigenous industry to face foreign competition and improve its efficiency.

(2) The method selected should not upset the budgetary equilibrium.

(3) The form of protection selected should be such that the burden is equitably distributed and diffused; it should fall upon persons who are in a position to bear it without any adverse effects on the national economy. In case the article manufactured by an industry seeking protection constitutes a raw material of another indigenous industry, protection should preferably take the form of a bounty of subsidy.

Question No. 42—

Ans: 144. The last Fiscal Commission suggested that permanent legislation should be made to counteract dumping, on the lines adopted by the United States and Australia. But unfortunately, there has so far been no legislation in India which would enable the Government specifically to prevent dumping or unfair competition. In India, where industries are still in their infancy, even sporadic dumping can do much harm. Secondly, the presence or absence of motive is not relevant. The last Fiscal Commission appreciated the difficulty of proving the existance of dumping and recommended that India should follow the American model, under which anti-dumping measures are undertaken only after a searching enquiry into the question of prices at home and abroad. In Canada, on the other hand, action is taken straightaway under executive orders and no searching enquiry is necessary in that case. The delay involved in Tariff Board inquiry might give opportunity to the foreign manufacturers to dump goods in large quantities and thereby ruin the domestic industry. Under the circumstances, it appears that the best method will be a combination of quick executive action in the way of anti-dumping measures to be followed by a detailed enquiry. In this connection so far as anti-dumping measures are concerned, we might usefully adopt the provisions of the Australian Law embodied in the Customs Tariff (Industries Preservation) Act. In one section it provides that "the amount of the dumping duty in each case shall be the sum which represents the difference between the fair market value of the goods at the time of shipment and the export price".

145. The provision for "offsetting duties" made in India in the Act of 1927, however, applied to an industry which had actually received protection and its object was merely to render the protection granted effective. It was not an independent power directed against dumping. It is essential that there should be a clear cut provision of the fiscal law and anti-dumping legislation should be separated from the specific question of protection. Under present conditions, the fiscal law of India can be considered under following heads:—

(a) Protective duties of a fundamental and developmental character designed to help struggling industries to attain the necessary strength to stand foreign competition.

(b) Preferential and bilateral fiscal arrangements.

(c) Anti-dumping duties designed to safeguard the national industries from predatory competition, whether of short or long duration, including dumping of all kinds, and

(d) Revenue duties.

146. Barring the last variety, the Tariff Board should be required to investigate all matters relating to tariff changes and requirements of different industries. But in every case, the purpose should be distinctly stated and the duties should be recommended specifically and separately.

Question No. 43—

Ans: 147. Export duties are often advocated for purposes of protection and revenue. But the injurious effects of such duties tend to diminish exports and thus produce an adverse effect on the balance of trade and may cause for a time difficulties in regard to foreign exchanges.

148. Export duties should, therefore, not be imposed for the purpose of protecting industries. Such duties might only be imposed when there is a reasonable probability that the tax will fall mainly, if not entirely, on the foreigner and when there is no appreciable danger that the production of the commodity in India will be affected. They should, therefore, be imposed only for revenue purposes and even then they should be imposed with great caution. They should be imposed only on articles in which India has a monopoly or semi-monopoly and that in every case the duties should be moderate.

149. Exprt control for safeguarding the domestic consumer may be practised only at home; if continued for long it may cause the external market to be lost and the trade may be ruined that way.

150. In principle the arguments for restricting exports in these cases are also arguments for regulating home consumption; but in practice, a too rapid exploitation of the resources of the country only arises when the products can be disposed of in the world markets. In all cases in which a decision has to be made with respect to the wisdom of conserving resources for the future, the great difficulty is to estimate the future conditions of demand and supply in a world in which industrial technique is progressing rapidly. If the country is restrained from using up its resources quickly, it may find later that they have little or no value.

Question No. 44—

Ans: 151. Bounty on experts might enable an industry to maintain its volume of exports and if the industry is such that it can earn valuable foreign exchange, it would be desirable for the Government to help the industry in exporting its products even though it might mean some scarcity at home.

Question No. 45—

Ans: 152. In computing the fair selling price, the Tariff Board considered the present fair selling price as well as the future fair selling price. By fair selling price, the Board meant the "reasonable cost of production and not the actual cost of production of any form, except in one or two cases, as steel and matches, where special reasons operated. The actual cost of production may be higher or lower than the reasonable or fair cost of production, and would depend on many factors such as purchases of machinery at times when prices were higher or lower, wrong localisation of the factory *vis-a-vis* the sources of materials and the markets and such other preliminaries placing the producer at a special advantage or disadvantage as the case might be. But there are some problems arising in the process of estimating probable costs.

153. Firstly, the question arises as regards the choice of the normal firm working under ideal conditions, in the proper locality and deriving the maximum advantages which may be normally had under the circumstances. But such a firm hardly exists and as costs must be based on actual working, the operations of working firms have to be taken into consideration. The Board generally solved this problem by taking the cost figures of one or more typical firms, as in the case of steel industry they had to base their calculations on the working of the Tata Company. The problem of ascertaining costs is further complicated by the fact that sometimes, the same firm produces different items of the same product on even different kinds of products altogether. The presence of supplementary costs also makes the problem insoluble. Finally the part that the revenue duty played in inflating the costs of raw materials and machinery imported by the industry will also have to be taken into account.

154. Having computed the present and the future fair selling price of the product to be protected, the average of the two prices are taken to represent the figure for comparison with foreign import prices. In this manner of cost analysis, the Board has done its best.

Question No. 46—

Ans: 155. The duty must be fixed as otherwise there would arise various complications. Such variations in duties are not always feasible nor desirable because the posibility of such variations would leave uncertainty regarding the revenue receipts of the Government in this account. It should, however, be provided that when a particular industry finds itself hard hit by the fall in import costs, it may refer the matter to the Tariff Board who would investigate it and suggest alteration in duties, if necessary.

Question No. 47—

Ans: 156. The essence of the difference between the specific rates and the *ad valorem* ones is that the latter change in response to fluctuation in prices, while the former based on specific attributes remain unaltered against changes in prices. A second point of difference between the two rates is that the specific duties are themselves determined by the legislature while in the case of *ad valorem* duties, the legislature only fixes the proportion of the value of the commodity that should be paid as duty. The Tariff Valuations in India are, however, revised every year.

157. Both kinds of duties are instruments in the hands of customs administration which are to be used to carry out the particular ends dictated by the tariff policy of the country *viz*., collection of revenue or safeguarding and fostering of home industries or both. Speaking generally, for purely revenue purposes a flat *ad valorem* rate would be much better than a specific duty. It is easily understood by the consumer and it provides automatic increase in revenue in times of rising prices. Its very simplicity makes it a convenient instrument of taxation. Further, these duties, besides being responsive to price changes are progressive in their incidence, as they fall more heavily on highly priced varieties of the same article. Lastly, the process of legislation is also simple. The legislature fixes the proportion of the duty in relation to price and leaves it in the hands of the administration to carry this intentions in the best way they can.

158. When the aim is only that of collecting revenue and when prices are falling, the demand for article being elastic, *ad valorem* duties are more suitable than specific, for even at a lower percentage a greater absolute amount of revenue is collected. If it is an article suitable for heavy taxation specific duties would be better in a period of falling prices *e.g.* liquor. Similarly, where the

object of the duty is to secure adequate revenue, specific duties are more desirable, when prices are rising, in the case of articles of elastic demand, because though they fetch less revenue proportionately, the ability of the consumers is not violently shaken as under *ad valorem* duties. For articles of inelastic demand, such as luxury articles, *ad valorem* duties under rising prices are to be preferred. The main defects of specific duties are (1) their effect is regressive, *i.e.* they fall more heavily on cheaper qualities of the articles; (ii) they are less comprehensible to the legislature or the average tradesman; and (iii) they are less suited, being inelastic for purely revenue purposes. Inspite of these, the advantages accruing from the specific duties, in some cases, especially in a protective tariff, out-weigh the disadvantages, and the specific duties may be adopted with benefit in regard to our tariff schedule.

159. Recent trends is rate-making indicate an increasing use of alternative and compound duties. The number of alternative duties has been extended in Australia and this method can be adopted for serving either a protectionist or a revenue aim by assessing the duty according to the rate which is more suitable. Compound duties, on the other hand, are found in a great number in the U. S. A. tariff. This duty also makes the yield in revenue steadier than that of the specific or *ad valorem* rate, because in a period of falling prices the specific half will keep up the figure and in a period of rising prices the *ad valorem* half will bring a corresponding increase in the duty. On the one hand, it lessens the regressive effect of specific duties and on the other ensures definite amount of protection.

160. What is needed is a diversification of rates and wherever, after expert enquiry, *ad valorem* rates are found to present difficulties, two solutions are possible (i) in case where the difficulties are primarily due to valuation, specific duties may be substituted; (ii) where the difficulties are not those of valuation, either the alternative or compound duties may be levied.

Question No. 48—

Ans: 161. With the imposition of import quotas, the imports are effectively restricted and limited to the amount permitted by the regulation. Due to the restriction of imports, prices, however, rise in the domestic market and by virtue of the stimulus thus offered a part of the foreign supplies thus shut out is usually replaced by the home production. The actual extent of the rise in the internal price level will depend upon the ease and extent of the substitution of domestic for foreign supplies.

162. As the foreign producer cannot enter the market regulated by import quota system by manipulating prices, he finds his marketing area cut short, and is forced, therefore, to dispose of his output in available markets at lower prices. This causes disparities between the domestic and foreign markets, creating thereby a national market, for goods and services subject to quota regulations, distinct from the international market and more favourable to the domestic producer. The result is that the domestic industries and trade get marked encouragement.

163. The effects of the quota regulations are, however, essentially different from those of the tariffs. The incidence of the import duty is well diffused throughout the economic system and new equilibrium is established which keeps the entire system in full working order without any serious dislocation. The import duty raises the price level in the protected market and by altering the equilibrium of demand and supply helps to distribute the incidence of taxation among the producers, traders and consumers. It is, however, essential to note that the import duty affects all producers, traders and consumers,

not only of the commodity taxed, but also of all related and competing products. The effects are spread over the producers, traders and consumers of a large variety of commodities in a number of countries. Therefore, under a normal protectionist tariff the disparity between the national and international price systems is not very wide. The adjustments create a new equilibrium and thereby keep the economic system free of violent upheavals. To create wide and unbridgeable gap between the prices of the same commodity in the protected and free markets, the tariff needs to be very high. The quota system, however, directly and definitely limits the imports of particular commodities and no price adjustment can alter the same. The obvious result is the marked disparities in the price levels of different countries.

164. It has already been emphasised that the fundamental aim of the quota system is the effective and prompt regulation of imports. The need for restricting imports may be dictated by several considerations.

(i) To assist or protect specific industries—Another important objective for which the quota system has been used is to assist definite industries. This assistance may take the form either of encouraging exports or of restricting competitive foreign imports.

(ii) To maintain internal price level—The maintenance of internal price level is another important objective of the quota system.

(iii) Use of quotas for commercial bargaining—The quota system has proved to be a most effective instrument in commercial bargaining. A country can shut promptly and effectively in precise quantities the undesirable imports by quota regulations and thereby compel the exporting countries to make equivalent concessions.

(iv) To plan trade on barter basis—Quotas are used to plan trade on barter basis or to effect exchange of specific commodities. By this method an attempt is made to effect exchange of specific goods in which the countries concerned are interested on the basis of reciprocity. The Indo-Japanese Trade Agreement illustrates the use of quota system with this objective. The recent Indo-Russian barter deals to exchange wheat for tea are also illustrations of the quota system adopted for this purpose.

(v) Use of quotas for retaliation—Quotas have also been used for retaliation. As an instrument of retaliation quota system has been extensively used by countries like Italy, Germany, Switzerland, etc.

(vi) Use of quotas for reducing tariff barriers—Another important objective with which the quota regulations may be imposed is to lower the tariff barriers.

(vii) Sometimes international agreements are negotiated for regulating the export trade in specific commodities on a quota basis. Specific export quotas are assigned to important exporters of commodities concerned. Wheat and Sugar agreements are of this nature.

(viii) To check the flood of imports pending tariff legislation.

Question No. 49—

Ans: 165. It is not possible to fix a time limit when protection is initially granted. Neither it is possible for legislators to foresee the future conditions of an industry. Professor Taussing who was the first Chairman of the United

States Tariff Commission writes, "The length of the time to be allowed for the experiment should not be too brief. Ten years are not enough, twenty years may reasonably be extended, thirty years are not necessarily unreasonable". It is hardly to be expected that an industry would be able to establish itself in India in any shorter period than is required in so highly a developed country as the United States. The economies of large scale production are operative over a long period and if the industry is to develop and improve its technical efficiency it should be granted adequate protection over a reasonable period. The peculiar conditions of each particular industry require close and careful scrutiny and the Tariff Board should be charged with the duty of watching the effect of the protective duties imposed and making from time to time such recommendations, as it may think fit.

Question No. 50—

Ans: 166. Tariff is an important source of revenue in modern items. Protective duties do bring in some revenue, and revenue duties are known to have some protective effect under certain conditions.

167. From the experience gained since the first world war, it might be said that whereas in all other countries the relative importance of customs duties as a source of revenue has diminished, in India the duty collected has nearly doubled itself. Indian finances have really come to depend too much upon this single source of revenue. Customs may prove to be a useful source of revenue in times of financial emergencies, but it has been seen that while it is a source easy to be tapped, it is also unreliable. It has further shown that in times of financial embarassment, India can hope to rely more successfully on economies of administration and on real, drastic and well-adjusted retrenchment than upon any other source, having regard to the optimum taxable capacity of her people.

168. When imposing tariffs for revenue purposes it should also be seen that the tariff schedule contains a small but selected number of articles designed to yield a large revenue than distributing the tariff on a large number of articles affecting the domestic budget of the common man. Secondly, it should also be ensured that the imposition of tariff does not totally stop the imports of the commodity. Articles of vital necessity or those which the exporters are somewhat reluctant to part with but are essential to meet the country's needs should not be chosen as objects of tariff imposition. Development of industries with the help of protective import duties must continue till the industry is able to meet the local demands fully. At the same time, the development of industries will, in its turn, lead to an increased or new demand for other articles, which may have to be imported. and if such articles are taxed, the customs revenue will increase to that extent.

Question No. 51—

Ans: 169. India's long term fiscal policy must be formulated with the object of securing rapid industrialisation of the country increasing the national dividend thereby and raising the standard of living of the people. This object can be achieved only through a protectionist policy which has been followed by all the Western countries to bring about rapid industrialisation and through mobilisation of their economic resources. India as she is industrially backward is all the more justified to pursue such a policy in the immediate future, aggressively nationalistic though it is, but calculated to enable her to be a real contributor to cause of economic internationalism. But a policy of protection is not itself sufficient and should be supplemented by other positive methods of assistance. In the long period, India should be an exporter of finished and manufactured goods and an importer of raw materials to a reasonable extent. Her status as an exporter of raw materials for the benefit of the other industries

of the country should be completely changed. Moreover, the present tendency of an adverse balance of trade should be checked and our industrial and commercial policies should be tied to the necessity of increasing our exports, which should consist of greater number of articles, and restricting our imports. Imperial preference and bi-lateralism should also be discarded and our foreign trade should be extended to a greater number of countries. Our industrial construction programme requires that the key and basic industries should be built by the import of capital goods from the U. S. markets and exclusive dependence on the U. K. would only delay our industrial development. Exports, too, should be diverted to non-European countries to a large extent as it is essential that our foreign exchange resources should be preserved and augmented to pay for our essential imports.

170. The Havana Charter on Trade and Employment aims at the development of international trade through the co-operation and joint effort of participating countries and if India agrees to sign the Charter, she is expected to derive help from foreign countries towards her economic development and her requirements of capital goods and technical "know how".

But her participation would not mean in any way that she would be hindered in her restrictionist policy to ensure development of her nascent industries. As long as India has to safeguard the balance of payments position, any obligations, that are supposed to arise out of clause XI, do not come in the picture at all and there is no contradiction between imposing restrictions to safeguard the balance of trade position and at the same time in so utilising them as to protect interests of indigenous industries in need of such help.

171. The Government of India's Industrial Policy as enunciated on April, 6, 1948, is, however, incompatible with their anxiety to develop indigenous industries. The ultimate objective seems to be of nationalisation of all industrial activities in the country. The aim of protection is to develop the private industries but if they are faced with the factor of unequal competition from state-owned undertakings which possibility is there in regard to the second group of industries the latter will present a serious problem to the former.

172. India has remained industrially backward due to the apathetic attitude adopted by an alien Government. It is the duty of our national Government to offer adequate scope and incentive to private enterprise to contribute its might in building up the industrial structure of the country. Government should try to mobilise private initiative and enterprise and use it effectively in promoting economic development only where private enterprise fails to enter, Government should undertake to develop the economic resources of the country on their own.

Question No. 52—

Ans: 173. Foreign trade under normal conditions, is a matter for individual trader's concern. Both in the internal and the international sphere complete freedom of industrial and commercial development should be ensured. Any intervention on the part of the Government would shake the confidence of private enterprise and raise undesirable complications. Neither Government nor quasi Government institutions should participate in the country's foreign trade.

Question No. 53—

Ans: Does not arise.

Section E

Non-Fiscal Measures for Promotion of Trade and Industry

Question No. 54—

Ans: 174. The last Fiscal Commission recommended for the development of the indigenous industries, the following non-fiscal or supplementary measures:—

(a) More industrial bias in primary education.

(b) Training of apprentices.

(c) Increased mobility of labour.

(d) Favourable railway rates policy.

(e) Setting up of a Railway Rates Tribunal.

(f) Quick transport facilities.

(g) Expansion of Indian mercantile marine.

(h) Abolition of shipping rebates.

(i) Anti-dumping legislation.

(j) Measures against imports from countries whose exchanges are seriously depreciated.

(k) Countervailing duties against export bounties.

175. Measures like anti-dumping legislation, countervailing duties against export bounties, measures against imports from countries whose exchanges are seriously depreciated, the abolition of shipping rebates, and setting up a Railway Rates Tribunal are really short period measures in the sense that whatever may be the duration of time for which they are required, they always call for early action whenever it is felt that time has come for their implementation into practice. The framing up of a favourable railway rates policy is both short period and long period measure. The rest fall under long period measures.

176. Since the enquiry conducted by the last Fiscal Commission the economic conditions in the country have undergone far-reaching changes; but these supplementary measures recommended by the last Fiscal Commission still hold good and so far not much has been done in the direction of their implementation. Only six other new measures can be added to this list, namely, the supply of cheap raw materials, cheap power or fuel, essential plant and equipment, adequate technical assistance and facilities for technical research and supply of adequate funds to finance both establishment of new industrial projects and development of existing ones. These measures will be dealt with in detail under Question 55. Let us now review one by one the measures recommended by the last Fiscal Commission.

(a) The present day curriculum of primary education in this country miserably lacks in manual training, with the result that in this country the interests for mechanical pursuits are not properly developed in the minds of the people. Although manpower is abundant in this country, it is not immediately profitably usable for the industrial projects unless they are first trained and adopted to the work in the factories. This low quality of Indian labour can be improved only by giving an industrial bias to their primary education. To achieve this the Wardah scheme of vocational training may be tried. Imparting of such basic vocational training is expected to accelerate the progress of indigenous industries by raising the quality of Indian labourers and with it their productive efficiency and standard of living.

(b) Planning for rapid industrialisation in India would be incomplete without providing for the relative efficiency of facilities for technical training, since, in the long run, without locally available scientific and technical talent self-sufficiency of Indian economy cannot be achieved and maintained on a basis of stability, able to withstand the stress and strain of world competition. As regards technical training, experience indicates that the subject of technical education in this country be taken away from Provincial Governments and treated as a central subject. Provincial Governments are not in a position to finance costly equipments and maintenance of up-to-date technical laboratories. In the circumstances technical education should be organised on a national basis by the Central Government. Further, any system of technical education and training should have a proper co-relation with our industrial requirements and potentialities. It is regretted that so far the grant of state scholarship for higher technical training and education has not been properly adjusted to the needs of the industries, with resultant failures in many cases. The employment of foreign technical experts to train students in India is an economical and useful device, as larger numbers could be trained within the shortest period.

(c) Industrial labour in India is not only uneducated but also highly immobile and seasonal. To ensure free supply of labour throughout the year in a satisfactory way according to the needs of the different industries, it is suggested that Regional Labour Exchanges should be opened on the lines of Regional Employment Exchanges. It is not possible for the National Government to take up this important responsibility, private organisations like the Tea District Labour Association should be set up.

(d) In the rapid and healthy development of industries in a country a carefully thought out and helpful railway rates policy plays an important part. The rates policy formulated by the Indian railways was intended to facilitate export of raw materials and import of foreign manufactured articles. This policy requires immediate revision with a view to accelerate the pace of industrialisation in this country. In the vast sub-continent of India it often happens that important industries are situated far from the sources of raw or basic materials. Also, the industries are to cater to markets situated all over the country. There is a strong case for a thorough overhauling of the freight structure both in respect of the raw materials consumed by the industries in this country and distribution of their manufactured products. A wise national freight policy should ensure cheap transport cost and not insist on charging freights on the basis of what the traffic can bear. The transport costs are not only high in this country but also there is no uniformity in the matter of classification and also fixing of rates. While on the one hand Government want the prices to be kept down, on the other, eversince 1945 the railways have been putting up individual freight rates. Most of the reduced special rates have been abolished and replaced by rates many times higher. Further, from September, 1947, the freight rates on essential raw materials have been increased. Unless the whole structure of the railway rates policy is changed, it is not possible to industrialise the country to any extent. The policy of the railways with regard to the fixation of railway freights should be formulated with due regard to the needs of industrialisation of the country in this particular stage of development of our industries. In the changing conditions of India a radically different policy will have to be adopted and while rates for transport of raw materials to the industrial centres will have to be preferential, those for imported manufactured articles, especially those produced by India, should be such as to discourage imports.

(e) The Railway Rates Tribunal should be empowered to fix the rates in such a manner that the cross-section of the rates or the general level of rates shall be the lowest possible. This would involve a thorough examination of the different rate levels and careful experimentation, which the Tribunal will be more able to conduct than the Government. It should also lie within its

competency to discuss and challenge, if necessary, the standard of efficiency of management and economy in operation of railway services. Further, when the provincial Governments are launching on road transport services, the Government of India may, at these early stages, broaden the functions of the Railway Rates Tribunal so as to include powers of co-ordinating road-rail rates in the competitive and other sections.

(f) In consonance with the industrial aspirations of India, the transport facilities of the country will have to be greatly increased. Unless the transport bottleneck is removed and the raw materials and finished goods moved promptly, production will certainly fall. With a view to removing the difficulty of acute wagon shortage experienced by all industries, the plying of private wagons on railway lines for transport of raw materials and finished products and convenient traffic from other sources by offering a very low special transport rate may be experimented upon. The fitness of such wagons for carrying traffic could be certified by the Railway Engineers and a reasonable rate of schedule per mile could be levied for this traffic after consultation with the interested concerns. A definite quota of goods traffic could also be reserved for such private movements, and distributed, if necessary, among these carriages. The class of goods of which private movements could be permitted could be specified and after specified period the railway administration could purchase these wagons or renew the permission for private plying for a further period.

Railways alone are, however, unable to effect satisfactory transport goods even when wagons are made available. Therefore, besides railway transport we require also the revival of cheap internal road and water transport which were disorganised with the advent of railways in this country.

(g) A powerful mercantile marine is necessary to encourage the establishment of essential industries like locomotive industry which would find it difficult to subsist adequately on home demand alone and would require an export market to maintain an economic output to enable it to take a firm root in the country, it being a patent fact that British, and Continental locomotive manufacturers depend on their export market for the mainstay of their existing industries, the home market being looked upon to provide the necessary quota to cover some of the overheads and thus assist their competitive power in foreign market. Another essential industry still to be started in India, is the manufacture of boilers which, when started, will have to depend on the goodwill of the Indian mercantile marine to provide a national ship-building industry and to cultivate its export market to ensure sufficiency of output on an economic level.

The need for an intensive drive to increase the participation of Indian owned ships in our foreign trade is urgently called for. If following the American lead in regard to the carriage of goods by American ships, the Government guarantee carriage of at least 50 per cent. of the cargo owned or controlled by them, it would not only enable Indian shipping to make great strides but also ensure its economic operation. The sailing Vessels Committee also recommended that the Government should concede the principle of reservation of traffic in certain commodities, like tiles, sand and stone to coastal vessels. Government can also help Indian shipping by negotiation with other shipping interests to allocate the gradually increasing proportion of India's private overseas trade, which is still dominated by British shipping interests, to Indian shipping interests.

(h) The system of shipping rebates should be abolished forthwith as it hurts Indian shipping seriously by creating monopoly of foreign shipping interests and stands in the way of the growth of Indian mercantile marine.

(i) Though it is difficult to prove dumping in many cases, suitable legislation, as recommended by the last Fiscal Commission should be enacted to afford necessary safeguards when Tariff Board is satisfied that dumping is taking place.

(j) Similarly, to check imports from countries in which the exchanges are seriously depreciated, suitable legislation should be passed to give power to the Government to take necessary action if according to the Tariff Board such action appears to be necessary.

(k) The Act XIV of 1899 provides sufficient protection against export bounties and as such further action to this direction is not called for.

Question No. 55—

Ans: 177. Our country is not fully industrialised and for a large number of essential raw and manufactured basic materials we will have to depend on foreign countries till such time as the demand for them does not justify their manufacture here. It is imperative, therefore, that Government should help the industry as much as they can in procuring industrial raw materials from foreign countries. There is at present shortage of such materials in the world and Government should introduce a system of "Barter" to secure them. The essential minerals and agricultural products of this country which may be surplus after meeting the indigenous requirements and which are to be exported to foreign countries should be exchanged only for the essential raw materials required by the indigenous industries. All regional restrictions should be removed and Indian manufacturers given import licenses freely to secure essential raw materials from world markets, wherever they are available at competitive prices. Their production in the country should also be encouraged by starting pilot plants or importing necessary machinery wherever possible. Government should also assist private industrialists in purchasing these at concession prices associated with bulk orders and Government's good offices as is being done in other countries like the U.K and the U.S.A. Government have already abolished the import duty in the case of a number of raw materials to facilitate their imports into the country. Such duties in respect of all classes of raw materials should be abolished forthwith. The financial loss to the national exchequer on this score will ultimately be met from the development of industries which will consume these materials.

(b) 178. India depends for her supply of capital goods to a great extent on foreign suppliers. Therefore, all possible assistance should be given for import of the latest plants and equipments from the cheapest markets. In the case of factories which have been set up with imported second hand machinery and where the wear and tear have been very much more than in others, such help should be accorded the first class priority. Government have recently reduced the import duty on plant and machinery from 10 to 5 per cent. in order to facilitate imports into the country of such plants and machinery as are required by the various factories. It is thought that such import duty should be abolished altogether. Further, facilities should be given for importing certain types of machinery from the U.S.A. in preference to the U.K. as the U.S.A. deliveries are much quicker. The Government of India should give immediate consideration to the possibility of entering into working arrangements with Japan for the supply of capital goods needed by this country. In order to facilitate such arrangements, the Central Government, in co-operation with the appropriate authorities in Japan, should provide the business community in this country from time to time with detailed information regarding Japan's economic plans, her productive capacity, trade prospects and financial position. The scheme of dismantling of plants and machinery in German factories is in progress. The Government of India should prevail on the U.K. Government to have a share

of the dismantled plants and machinery to make good the shortage of capital goods in this country.

(c). 179. The main sources of motive power are electricity, fuel oil and coal and coal gas. While power resources are generally adequate in factories situated in big industrial cities like Calcutta and Bombay there are some who expect an increased demand for electrical energy in the post-war years owing to the extensions they contemplate. The availability of cheap electrical power will aid development of major industries, the survival and setting up of small industries and the establishment of new ones. The utilisation of low grade Bengal and Bihar coal in power generation in two or three large power houses located in the colliery areas in collaboration with the Central Government, Governments of West Bengal and Bihar, the Railway Board and the existing large distributors of electrical energy in these areas is expected to give practical solution of the difficulty of supplying cheap electrical power in the Eastern Provinces. These power houses will supply the necessary power for industries and agriculture in these provinces for the electrification of railways within a range of 150 to 200 miles from Calcutta. The ancillary advantages of the scheme are: (a) Preservation of first class coal required for metallurgical purposes which is being used for steam raising in locomotives and for power generating purposes. (b) Larger consumption and better utilisation of low grade coal which is being neglected in spite of its immense potential and existing supply. (c) Concentrated use of low grade coal in two or three power houses will make it practicable to utilise its by-products. (d) The suggested electrification of the railways will greatly relieve the wagon shortage and the serious congestion in traffic as it will mean so much less coal to be transported for locomotive power and generation of electricity. (e) Electrification of railways proposed, which will require skilled labour, will give impetus to technical education in the Eastern provinces.

180. In case of planning for electricity, central planning is advantageous both from the technical and financial view points. On the technical side it is not hampered by provincial boundaries and can provide for an effective integration of the different schemes. Further, it is desirable for the purpose of securing adequate finances and expending them in an appropriate manner.

181. In some cases fuel oil is the main source of motive power. The prices of fuel oil have shown a very much steep rise in recent years, the rise being about 60 per cent. in a short period of one year. The monopoly of supplying fuel oil is enjoyed in this country mainly by M/s Burmah Shell Oil Storage and Distributing Co. Ltd. It is, therefore, incumbent on the Government to provide alternative sources of supply if the prices of oil supplies cannot in any way be controlled or regulated.

182. To facilitate supply of cheap motive power in and around the coalfields, Government may consider generating producer gas, etc., at the coalfields as is done in Germany and Russia and have it pumped from there to metallurgical industries, etc., within a radius of say, 200 miles by pipes laid from the coalfields to the consuming centres.

(d) 183. The following suggestions may be made regarding the revision of the railway freight policy in this country:

(1) The revision of general goods classification is necessary;

(2) Important raw materials should be given the lowest telescopic freight rates;

(3) Finished products of similar nature should be placed under the same minimum classification;

(4) The freight rates for the same commodity should be uniform over all state railways;

(5) When the industry's material is hauled in train-loads from one destination to another instead of in separate wagon loads, the cost to the railway is very much less, because, in a given time, owing to relative avoidance of detention on intermediate stations, the traffic hauled would be much greater than in the case of separate wagon-loads. But the railway charges the same freight per ton irrespective of whether the material is sent by train-loads or separate wagon-loads. It would, therefore, be equitable if the economy effected by train-loads is passed on to the industry by the railway in the shape of a special concession rate for train-loads proportionately less than for wagon-loads;

(6) In the case of indigenous raw materials, manufactured articles and agricultural products which have ready markets overseas and are valuable sources of earning foreign exchanges special reduced rates to ports should be fixed so as to facilitate their export. Recently the Railway Board have laid down the principle of quoting such reduced rates only to the nearest port. It does not always happen that such materials are exported from the nearest ports as certain facilities, as, for example, godown facilities, bailing and pressing facilities, etc., are required at the ports before the shipment can be effected. It would, therefore, be advisable not to stick to any strict principle in quoting reduced rates for the nearest port. It would be better to fix reduced rates for all the ports of shipment.

(e) Please see Q. 17.

(f) 184. As regards facilities for technical research, the present organizations set up by the Government consist of a Council of Scientific and Industrial Research, a Board of Scientific and Industrial Research, and the Industrial Research Utilisation Committee. Under the aegis of the Board of Scientific and Industrial Research, a National Metallurgical Laboratory, a National Fuel Research Institute, a Central Glass and Ceramic Research Institute, a National Physical Laboratory, a National Chemical Laboratory, a Road Research Institute, a Building Research Centre, a Leather Research Institute, a Central Drug Research Institute, a National Internal Combustion Engines Research Laboratory, an Electro-Chemical Industries Research Institute, a Central Food Technological Research Institute have already been opened or are going to be opened.

185. But these are not enough to cope with the problem of rapid industrialisation which calls for broadening of the basis of research. It is, therefore, desirable to readjust the existing research organisations more or less on the lines advocated by Sir J. J. Ghandhy at the 31st Indian Science Congress in 1944. The Council of Scientific and Industrial Research which is the supreme body should correspond in its functions to the Committee of the Privy-Council for Scientific and Industrial Research in Great Britain and consist of prominent industrialists, economists and scientists and be presided over by an appropriate Minister of the Central Government. Its main functions should be to lay down broad principles of policy for the guidance of technical subordinate bodies, co-ordinate their activities and receive financial grants from Government. Of the other two constituent bodies, the Board should concern itself largely with science and the Committee largely with Industry, or rather with the industrial application of scientific research, both working in close collaboration, under the general guidance of the supreme Council.

186. The broad functions for the Board of Scientific and Industrial Research should be :—(a) To plan national scientific and industrial research in collaboration with the Industrial Research Utilisation Committee under the general direction of the parent Council. (b) To develop facilities for the execution of national

research programmes, by setting up national laboratories for chemical, metallurgical, physical, fuel, food, and other types of research, stimulating the growth of private research institutes and laboratories, introducing and encouraging the American Fellowships plan, etc., in the country, for this purpose. (c) To apportion research schemes to its own and private and university laboratories. (d) To control, supervise and coordinate scientific research activities as well as technological education in the country thus ensuring the proper collaboration between Government Industry and Science. (e) To distribute grants to research institutes and individual research workers when necessary. (f) To formulate and submit its general recommendations annually to the parent Council for approval.

187. While considering the need for technical assistance and research for the major industries of India, the requirements of the small industries should not be overlooked. Such assistance can best be rendered by Government Industrial Engineers located in Industrial Cities who would charge a small fee for giving their advice to those small industries which cannot afford to engage technical assistants and research workers for their small industries.

188. The scope of functions of the Indian standards Institution should be broadened and it should be entrusted with the responsibility and task of collecting standard technical information from foreign countries and disseminating these in this country for the benefit of the industrialist. This it can easily do while preparing Indian standards on the basis of standards prevalent in other countries. It will also be very helpful if the institution has a practical wing to give demonstration of a modern technique and standards in use in other industrially advanced countries of the world.

(g) 189. Recently, an investigation into the cases of applicants who approached the Industrial Finance Corporation for loans revealed a real dearth of capital in the country and the capital reserves of the industries as low. This situation is unfortunate and calls for immediate attention. The problem today is not merely that industry feels that it is not receiving adequate finance; it is also that available finance can be obtained only at a high price. To remove this longstanding need of the Indian industries the Government of India have recently established an Industrial Finance Corporation for facilitating supply of finance to industrial concerns.

190. The activities of the Corporation should be widened; loans should also be granted to partnership firms and private limited companies against approved securities and assets, if the Corporation is fully satisfied after scrutiny of the same.

191. The industrial Finance Corporation as now established in the country falls short of the country's industries' requirement. The authorised capital as also the issued capital is inadequate for purposes of financing industries in a vast country like India. The country awaits rapid broad-based industrial development. To supply adequate finances to the indigenous industries, the Corporation should have an authorised capital of at least Rs. 25 crores and an issued capital of at least Rs. 10 to Rs. 15 crores to start with. Government should have at their credit at any time at least 50 per cent. of the capital. The circle of subscribers should also be broadened. The public desiring to put in their saving, in fairly long term deposits, should also be encouraged to invest their money in fixed deposits with the Corporation. In the case of fixed deposits with the Corporation if the rate of interest is made a bit higher say 5½ per cent., payable every year, and at the same time the time for maturity is 15 years, Government can be sure of good response from the investing public. This will serve a double purpose—the saving habits of the public will be encouraged and the Corporation will have adequate funds to take up long term financing of

industries. In the case of small industries, those provinces which have got State Aid to Industries Acts should apply them more liberally than they have done till now and those provinces which have not got such Acts should enact them at the earliest.

Question No. 56—

Ans: 192. The progressive association of Government, Trade and Industry can only be achieved through establishment of a Central Advisory Council containing the representatives of both the Government and the Trade and Industry and presided over by an appropriate Minister of the Central Government. The representation to the Trade and Industry in such a case should always be given through organised trade and industrial associations and Chambers of Commerce. The Central Advisory Council may be divided into two or more sub-councils concerned with different aspects of the industry, their activities being co-ordinated through the Council. The recommendations of these Councils should have a mandatory character as it is thought that mere advisory character would not give sufficient weight to the recommendations made by the Council. This Central Council, on the other hand may be assisted in its working by a number of Committees, each Committee being concerned with particular industries. The duty of these Committees will be to consider in detail the problems confronting that particular industry with which it is concerned and give advice to the Central Council in the matter. The Central Council on its part will consider the recommendations of the different Committees and try to evolve a co-ordinated plan for the development of the country's industries as a whole.

193. Government have already taken a good start in the matter of associating the representatives of the Trade and Industry with the activities of the Government in the field of industry and trade. The scope of functions and the organisations of the present Advisory Councils and the Development Committees should, however, be revised to make them more helpful in the purpose for which they have been constituted. To facilitate formulation of a co-ordinated industrial policy favourable to the proper growth of industrialisation, it is suggested that the Transport and Labour Advisory Councils should be merged with the Central Advisory Council of Industries instead of being kept as separate bodies. The Central Advisory Council of Industries may, however, have sub-councils to deal with labour and transport problems.

Question No. 57—

Ans: 194. Besides, the special types of organizations mentioned under Q. 56, it is thought that no separate organization is necessary.

SECTION F.

Fiscal Policy in Relation to Commonwealth Preferences:

Question No. 58—

Ans: 195. Discussion on preference as between the countries of the Commonwealth was initiated by the U. K. In the latter half of the nineteenth century, however, several countries developed their industries and competed with British industries. This growing foreign competition led Britain to sponsor the scheme of Imperial Preference as a defensive measure.

196. India was not much interested in Imperial Preference as her exports were in regular demand and could find easy markets without any preference. Secondly 'preference' within 'protection' would reduce the effective protection granted to industry. On these grounds, therefore, both the Government as well

as the people of India were against any scheme of Imperial Preference. And if ultimately Imperial Preference was accepted it was more on political than on economic grounds. The approach was thus essentially a negative one.

197. Though the Ottawa Agreement under which India accepted Imperial Preference was replaced by successive agreements, and though the Indo British Agreement of 1939 did something towards improving the position, yet the psychology that Imperial Preference was thurst on a dependant India, remained.

198. The economic and political conditions in the world as well as in India have changed much since then and especially since the attainment of Independence and partition of India in August 1947. The General Agreement on Tariffs and Trade and the Havana Charter on World Trade and Employment also necessitate a new approach to this question. Since there are no political fetters to dominate our economic policy, India has to take full cognizance of relevant economic factors in arriving at a final decision.

199. Under the General Agreement on Trade and Tariff a provisional agreement was signed by India with some other countries for concession in tariffs, etc., on a reciprocal basis. Imperial Preference also came under scrutiny and reduction in preference was agreed upon both by India and the U. K. To the extent to which different countries agreed on multilateral basis of trade, the policy of import preference will have to be revised. Once the Havana Charter is ratified and the International Trade Organization comes into being the scope of multilateral trade will widen and preferences will have to be adjusted to the terms of the Trade Charter. The Havana Charter discourages use of preferences as they involve discrimination in trade. We will have to take into account the changing pattern of our foreign trade.

200. While manufactured goods like textiles, oils, carpets and coir-matting, sports goods, etc., are growing in importance in our export trade, we have also become net importers of raw materials like raw jute and cotton. With steady progress, India will fast turn into an industrial country supplying the demand of the Middle East and some Far East countries for manufactured articles. Preferences shall be reciprocal and mutually advantageous to the extent to which our economies are complementary. It is in this perspective that the question of Imperial Preference is to be surveyed.

Question No. 59—

Ans: 201. So far as India was concerned, the Fiscal Commission's principles on which Imperial Preference was to be recommended were based on the negative attitude of avoiding any economic loss to India through reduction in protection or appreciable increase in the burden on the consumer.

202. But in the present circumstances we should take more positive steps towards not only avoiding losses but improving the opportunities—in so far as that is possible under the present context of our growing home industries.

The principles that we would, therefore, like to put forth to guide the scheme of any preference in the future will be on the following lines:—

(1) Whereas no preference given in any way should diminish the protection required by Indian industries, the positive gain that they can achieve by a judicious scheme of preferences should always be kept in view. A reciprocal preference which can ease the raw material position of an industry or improve prospects of a ready market for its finished goods can go a long way to giving positive help to our industry without entailing any loss.

(2) Preference should be on a reciprocal and mutually advantageous basis. We cannot revert to the stand taken by the Fiscal Commission of 1921-22 that any preference given by India to the U. K. should not be a matter of bargain for India but should be given as a free gift to the mother country. The interests of an independent India anxious to utilise all available opportunities for promoting rapid and balanced economic and industrial development should not be subordinated to the interests of the U. K. or any other country.

(3) Preference given to the goods of one or more countries should not result in such a change in the pattern of our foreign trade that it leads a non-preferential country to discriminate against our exports to or imports from that country in a way that affects vitally our industrial and trade position.

(4) Any kind of Imperial or other Preference as also the Fiscal Policy on the whole should be geared into the development of the economic fabric as a whole. A policy of preference should keep in view the trade or tariff point of view and it should be considered from a broader angle so that the economy on the whole does not lose by any short-sighted tariff concessions or preferences.

(5) Finally, as the Fiscal Commission of 1921-22 recommended, no preference should be granted or promised without the prior sanction of the Legislature. Previously the Legislature's powers were limited and such agreements as met it's opposition were certified into law by the Governor-General. But now the Legislature as the sovereign body shall have every authority to decide about the issue. It will look to its broad political and other repercussions while in economic details it will generally accept the recommendations of an expert body like the Tariff Board.

Question No. 60—

Ans: 203. Under the Indo-British Trade Agreement of 1939, India accorded a preference of 10 per cent. to a number of items of imports of British goods like chemicals, paints, remnants of piece-goods, woollen-sewing-machine, and 7½ per cent on motor-cars, motor-cycles and scooters, cycles and omnibuses. As against this the U.K. on her side apart from continuing the free admission of certain Indian goods (as lac, raw-jute), granted the following main preferences:—10 per cent. *ad valorem* on Linseed, Castor-seeds, Ground-nuts, Leather, spices etc., (b) 15 per cent on jute manufactures, ropes, oils etc., and (c) 20 per cent. on coir-matting, cotton manufactures and certain jute manufactures and, (d) specific preferences to coffee, tea, rice, carpets and rugs.

204. Under the General Agreement on Trade & Tariff, India has offered concessions on various goods in the form of reduction of custom duties, or reduction in preferential margins, or by the binding of existing tariff treatment. Out of the goods on which the U.K. was granted preference, motor-cars and parts, chemicals and drugs, etc., come under the purview of the General Agreement on Trade and Tariff, and for exports the principal commodities in which India has received direct concessions are jute and jute manufactures, cotton manufactures, mica, shellac, matting, sports goods, carpets, oil, tea, etc. Besides, she has received indirect concession on many other items. In short, to the extent of the terms of the Agreement, there will be a sort of free trade among the members and they will receive mutual concessions not enjoyed by non-members.

205. It is difficult to estimate precisely the effect of the Indo-British Trade Agreement on the foreign trade of the two countries. The Agreement came into force in 1939 and soon the war broke out. Any change in the direction

of our trade in the successive years was therefore mainly due to war requirements and emergency and must have only slightly been due to the Agreement. Similarly the General Agreement on Trade and Tariff has not been in operation for a sufficiently long time and therefore it is premature to judge its results.

(a) *Effect on Expansion of Trade.*—Under the Indo-British Trade Agreement, Britain received preferential treatment in respect of goods in which there were strong competitors. And some of these articles, like paints, woollen goods. cycles, some kinds of machines, etc., do not come under the General Agreement on Trade and Tariff. Therefore, any preference on these competitive goods will stand in the way of our trade with other countries to whom we could send our exports on a reciprocal basis.

(b) *Customs Revenues.*—Customs revenue will in the longer period increase as trade on a multilateral basis goes on expanding. Therefore, to the extent that General Agreement on Trade and Tariff leads to expansion of trade, customs revenue will improve.

(c) *Price levels of preferred commodities.*—In the case of the imports in which the U.K. still retains exclusive preference, prices will naturally be higher than it would be the case in a non-discriminatory situation. In the case of other commodities we will be in a better position as competition will bring the prices down to their proper levels. As for our exports to the extent that other countries give concession to us, we may be in a better exporting position under the General Agreemnt on Trade and Tariff .

Question No. 61—

Ans: 206. Prior to 1938-39 the extent of intra-empire trade, if the U. K. is excluded, was of a rather limited character. In 1934-35 India's imports from the British Empire, excluding the U.K. were less than 9 per cent. of her total imports, though her exports stood at about 14 per cent. of the total. But after 1939 the share of these countries in the foreign trade of India recorded a marked change. The rest of British Empire's exports to India increased from 8·8 per cent. in 1937-38 to 27·6 per cent. in 1938-39. Export trade during these two years remained steady.

207. The war exigencies changed the direction of trade. The imports into India from the British Empire as a whole decreased from about 58 per cent. in 1938-39 to 48 per cent. in 1943-44. The U.S.A. stepped in and the imports from that country began to rise. After the war India gradually entered into trade arrangements with many non-Empire countries both in Europe as well as the Middle-East. Though the diversion is not yet so marked, the trend is significant.

208. The general Agreement on Trade and Tariff has broadened the application of concessions in most of our goods. Through the trend towards multilateralism under the International Trade Charter, India's export and import trade will become more diversified; yet, in so far as our economies are complementary, trade is bound to maintain its present direction. Imperial Preference in reference to the Empire, excluding the U.K., was never so important a factor in intra-empire trade; now with the General Agreement on Trade and Tariff and the International Trade Charter, it will receive strong set-back.

***Question No.* 62—**

Ans: 209. The consumer is interested in getting his goods at the minimum price. His burden increases to the extent to which preference on imported goods results in increasing or reducing prices of those goods.

210. Under the Indo-British Trade Agreement (1939), out of the 18 groups of preferred articles there was only one group *viz*. cycles and parts, whose imports (according to 1937-38 figures) from the U.K. were as high as 74 per cent. In the case of 8 others they varied between 52 per cent. and 67 per cent. In the case of the rest the U.K. accounted for less than 50 per cent.

211. According to our above test it is doubtful if the Indian consumer gained anything from this preference because for a large portion of his goods he had still to depend on non-preferred countries. We can at best say that to the extent to which preference was granted by reduction in the import duty the consumer must have gained relatively in case of the groups of articles whose imports from the U.K. stood at more than 50 per cent. Since most of the preferred articles were those in which the U.K. faced strong competition from other sources, especially when it is affected by raising the duty on the articles of non-preferred countries it must have imposed some burden on the consumer.

212 As for a quantitative assessment of the consumer's burden (relative to the loss or gain to the State's revenue) it is difficult to give any precise estimate.

Question No. 63—

Ans: 213. India's preferred exports to the U.K. have been divided into four groups. Group I includes commodities like jute manufacture, coir yearn coir-matting, etc. In this case Indian exports face little competition either from the Empire countries or from other foreign countries. Group II consists of commodities like Linseed, Pig-iron, carpets, rugs, etc In this case exports from India face little competition from within the Empire but strong competition from outside. Group III consists of ground-nuts and tea. In this case Indian exports face strong competition from within the Empire and little competition from outside. In case of Group IV which consists of tobacco, spices, vegetable, oils, etc., there was strong competition from within as well as outside the Empire.

214. We may also give a general idea of the possible benefit to India from preference granted in respect of each of the four groups mentioned above. In case of the first group, more than 73 per cent. of the U.K. demand was supplied by India and there was hardly any serious threat of competition from any other source. Though the position improved after the grant of preference, it was not very significant compared with the basic position. Clearly, therefore, preference was not expected to confer any substantial benefit. And since even in 1936-37 the U.K. was responsible for only 28 per cent. of our total exports of this group, the significance of any improvement due to preference is limited. From 1931-32 to 1936-37 the percentage of our total exports into U.K improved from 26 to 28.

215. As for the second group where India faced strong competition from the foreign countries, preference in the U.K. market was a positive gain. In 1931-32 we supplied only 24 per cent. of the U.K's. demand of these goods while in 1936 it shot up to 54 per cent. The foreign countries share fell from 75 per cent. to 43 per cent. in the same period. But the otherside of the picture is not to be lost sight of. Since in this case also the U.K's. intake was only 34 per cent. of our total exports, the major portion of it went to other countries where our exports had to divert their supplies from the U.K. market now chiefly supplied by India. Consequently our exports to other countries fell from Rs. 21·76 crores in 1931-32 to Rs. 14·68 crores in 1936. This resulted in the over-all fall of our exports (in spite of increased exports to the U.K.) from Rs. 24·57 crores to Rs. 21·99 crores.

216. In the third group we did not gain anything positive by the scheme of preference. It was only a safeguard against loss. Since our chief competitors were other Empire countries which also benefited from preference, no positive benefit accrued to us.

217. In the forth group we supplied only a small portion (15·3 per cent. in 1937-38) of the U.K's. demand, there being strong competition from Empire as well as other sources. Moreover, the U.K. accounted for only about 27 per cent. of our total exports under this head.

218. The Indo-British Agreement of 1939 did not change the position in any substantial way.

219. But when we recall that the non-preferred exports consisted mainly of raw jute and raw cotton the market for which was ever expanding, we feel that preference had something to do with the increase in the exports of the preferred articles. Besides, given the trend towards autarchy in the post 1937 world and granted the Imperial Preference arrangement between England and other Dominions and Colonies, India would have lost her markets both ways. Preference assured her at least the U.K. Market.

220. As regards India's trade with the Dominions and other Colonies and the effect of preference thereon, it should be remembered that Imperial Preference as visualised in the Ottawa and the Indo-British Trade Agreements mainly related to trade between the U.K. and the other countries of the Empire individually. Each of these countries entered into separate agreements with the U.K. Any grant of mutual preferences by the Dominions and Colonies among themselves was only an off-shoot of the main agreements and did not give any special encouragement to their mutual trade.

221. As for the Colonies like British East Africa and British Malaya our export trade ran on different lines. Because of their geographical proximity India exported a good amount of finished goods like textiles etc., to these Colonies. It was not only Imperial Preference in its fiscal sense that gave a tillip to our exports to these Colonies. Of far greater significance was the increasing hostility among nations in the world which lead to closer trade and other contacts between the various members of the Empire.

Question No. 64—

Ans: 222. It is clear that India accepted the principle of Imperial Preference mainly on political grounds and any conscious attempt towards strengthening her bargaining position did not arise.

223. In fact, an important cause of dis-satisfaction with Ottawa was the feeling that the Indian Delegation failed to make full use of India's bargaining strength *vis-a-vis* Great Britain and gave away too much and received too little in return. The Agreement was too hastily devised and enforced. There was no thorough enquiry by a competent authority, like the Tariff Board, which alone could have applied the suitable tests and seen that our bargaining position improved.

224. Even under the Indo-British Agreement, while the preferences which India received in the U.K. had mostly a negative insurance value, the preferences granted by her to the U.K. though on a smaller trade value, were of real benefit to the latter in so far as these related to heads of imports in which the keenest competition was met with by the U.K. Further, while the preferences enjoyed by the U.K. related to manufactured articles, such as chemicals, paints, instruments and apparel, which were directly detrimental to the growth of indigenous industries, the U.K. granted preferences only to raw

materials required for keeping her industries going. The Cotton Article, which come in for persistent criticism, did not provide any *quid-pro-quo* inasmuch India was bound to buy a stipulated quantity of cotton piece-goods in return for a stipulated quantity of the export of raw cotton to Lancashire which fell short of their normal intake.

225. *India* vis-a-vis *the non-Empire countries.*—The general preferences enjoyed by the U.K. precluded India from entering into any trade agreement with continental countries, as India could offer them very little in exchange for her exports. Prior to the introduction of Imperial Preference our export trade was much diversified and the non-Empire countries accounted for more than half of our exports. But after the preferential agreements with the U.K. and Dominions, our exports to the non-Empire countries dwindled firstly, because of loss of the Empire market to these countries, they offered stiff competition in the non-Empire markets, and secondly, with th rend towards reciprocal bilateral agreements, as against triangular and mult ateral arrangements, our imports (due to preference) from these countries could not be large enough to balance our exports.

Question No. 65—

Ans: 226. The facts mentioned in answer to Q. 64 by themselves make the value of any Imperial Preference doubtful and when we weigh them in the light of changed international position as also the changing pattern of India's trade, the dice may be cast against the scheme of Imperial Preference.

227. With the coming into being of the International Trade Organisation as also of the already existing General Agrement on Trade and Tariff, the international tension in trade as also the tendency towards autarchy seem to be a spent force now. Given the tendency towards increasingly freer trade on a multilateral basis, any scheme of Imperial or other preferences will have to be revised and made consistent with the terms of the Havana Charter.

228. India's pattern of foreign trade has changed since the Fiscal Commission of 1921-22 sat on judgement on Imperial Preference.

229. Our recent trade agreements with several European and Middle East countries, though modest in magnitude, indicate the scope for increasing trade on a reciprocal basis. Some of the European countries have agreed to supply us capital goods which we require. We will have to promote development of our trade all round. The question of imperial preference has to be re-examined in the light of economic requirements.

SECTION G

Treatment and Obligations of Protected and Assisted Industries.

Question No. 66—

Ans. 230 (*a*). Yes. industries receiving protection or assistance from Government owe a special obligation to the rest of the community as regards the manner in which they render their services.

(*b*) (1). The rise of price which follows grant of protection is just enough to compensate the domestic manufacturers for their higher cost of production and if there is no prejudice against consumption of indigenous products, imports will be shut-out and the entire home market would be available for the indigenous products. Thus if protection granted is adequate and of reasonable duration, price of the article at home will come down along with the cost of production.

231. In short, protection does impose a burden on the consumer. This is a deliberate sacrifice which the consumer has to make to promote his own interests and those of his country in the long run. This sacrifice is essentially temporary. It helps to improve the efficiency of factors of production, widens the scope for employment, raises income and purchasing power of the people and makes the supply of goods and services more plentiful and at reasonable prices. Therefore, there is no chance for alarm at the temporary rise in prices due to grant of protection.

232. In the circumstance, it is not desirable that any price policy or price structure should be laid down for protected industries. The application of any such policy would be neither desirable nor practicable.

(ii) Wages constitute a major portion of the cost of production in the Indian industries. Since the termination of war there has been a marked tendency for the wages to rise and production per man power has tended to decline thereby raising the cost of production. Wage structure has become very rigid. Therefore, there is no need for imposing any obligations in respect of wages on protected industries. *Per contra* efforts should be made to improve efficiency, lower cost of production and reduce burden of protection.

Similarly, conditions of employment labour have been materially improved during the last few years due to protective labour legislation enacted by the Provincial and Central Governments. In fact experience has shown that the pace of legislation in the direction has been fairly rapid. There is no need for special provision for labour employed in protected industries.

(iii) & (iv) It is fully appreciated that the industrial development of a country depends on extensive research work in all aspects of production and distribution and effective utilisation of the results thereof. The industrialists are doing their best to extend facilities for research work both individually and collectively (kindly see in this connection answers to Q. 54 & 55).

(v) Improvement in the available supply of skilled labour will help to improve the quality of products and reduce cost of production. Industries are training their labour force and have succeeded a good deal in that direction. Government can help the industry considerably by extending facilities for training in advance factories and other workshops under their ownership and control.

(vi) It depends upon the nature of contingencies. Control of distribution is advisable only in case of marked scarcity of the product in relation to demand such as happened to many industries during the war, especially sugar, iron and steel, and during periods of serious maladjustment in the regional distribution due to extreme difficulties of transport or otherwise. But even in that case the industry should be given a chance to handle the distribution on the lines laid down by the Government in consideration with the industry concerned. The Government should interfere only in the event of a serious maladjustment existing or apprehended.

Question No. 67—

(a) (i) 233. Voluntary restriction of production calculated to hinder the normal adjustment of prices on the basis of demand and supply should be cheked. Definite stipulations may be made on the industry in this respect. Restriction on production is however, unavoidable under certain circumstances, *e.g.* labour troubles, shortage of raw materials, godown congestion due to lack of transport for clearance etc. Production has also to be restricted if there is over-production.

(ii) Instead of making stipulations that no protected or assisted industry should engage in any restrictive practice in respect of distribution of products, Government should make arrangements for facilitating the distributive trade so that no hindrance is experienced. Hoarding of stocks out of any illegitimate speculative motive and restriction of distribution calculated to check the normal adjustment of supply to effective demand should be discouraged.

(iii) Prices should be fixed by the force of demand and supply in the open market. The industrialists would not as a rule, resort to cartellisation; they would ensure free play of economic forces to adjust prices. Government may, however, keep a watch on all restriction in prices not arising out of mal-adjustment of demand to supply or *vice-versa*.

(b) In India there is a wide home market for industrial products. Manufacturing industries being subject to the principle of increasing returns and decreasing costs, it would be in their interest to make more production and sell at the lowest price. Industrial associations would therefore encourage production and reduction in costs and prices. In view of their trends it is desirable to promote the growth of industrial associations without imposing any restriction on their rights.

Question No. 68—

Ans. 234. According to the terms of reference of the present Tariff Board, an industry seeking protection has to satisfy the Board that it is established and conducted on sound lines. Besides, the Indian Companies Act provides for regulation of working of Joint Stock Companies. There is no need to lay down any special conditions regarding the financial structure of industries receiving protection.

Question No. 69—

Ans. 235. The present arrangement for the standardisation and control of the quality of industrial products in India is not satisfactory. The Indian Standards Institution will yet take some time to put its various schemes of standardisation and quality control into effect.

236. It is, however, necessary that special provisions for standardisation and quality control should be laid down for protected or assisted industries and they should be given adequate help to adopt the suggested measures. This will enable the protected industries to improve the quality of their products and build up good reputation among the consumer.

(b) It is desirable that where industries have their own organisations working on proper lines they should be entrusted with the enforcement of the provisions of standardisation and quality control. Industrial Associations being in closer contact with the day-to-day working of the industry are in a better position to know the requirements of the members and persuade them to adopt the measures suggested.

(c) Institutions for formulation of principles of standardisation and quality control should necessarily be professionally expert bodies. The members of such bodies may be 'picked' out from Government Departments, foreign scholars and Indian Universities to provide for practical and specialised knowledge of the industries concerned; the representatives of the industries technically qualified should be co-opted.

Question No. 70—

Ans. 237. It is admitted that protected or assisted industries owe special obligation to the community as regards the manner in which they render their

services. It is not desirable to incorporate these obligations in the statutes dealing with the protected or assisted industries. The Tariff Board, being an expert body entrusted with the task of examining the claim of protection and the nature and form of assistance to be extended to individual industries will be in a better position to determine the nature of obligations to be enforced.

Question No. 71—

Ans. 238. (a) No Tariff Board can, however, watch the progress of the industries.

(b) No.

(c) No. There is no need for such representation. The supervision of the Tariff Board would be enough to secure the object in view.

SECTION H

Question Nos. 72-73—

Ans: 239. The existing organisations are Ministry of Commerce and the Tariff Board under it. These organisations are considered inadequate to deal with the problems of implementation that may arise out of Government's acceptance of a comprehensive policy as regards (1) fiscal measures and (2) non-fiscal measures.

240. The present Tariff Board is an *ad hoc* Board. Every application for assistance is to be scrutinised and examined carefully. While recommending the Tariff Board should suggest measures towards carrying out the industrial policy of the Government. A bold and comprehensive view of the economic development of the country is to be kept in view. Only a Tariff Board permanent and with statutory powers defined by the Indian Legislature could satisfy the above demands. In view of the complicated and varied nature of the work, the composition of the Board would have to be considerably enlarged. The Tariff Board can be remodelled and separate technical and other organisations attached to the Board to assist it at every stage of its work. It is learnt that in U.S.A. the Tariff Commission has remodelled its organisation, classifying their functions in four broad heads.

1. The Office of the Chief Investigator.
2. The Office of the Chief Economist.
3. Legal Division.
4. Secretary's work.

241. The Indian Tariff Board need not rigidly follow the above classification.

242. Besides, a permanent body with statutory powers would secure consistent decisions and continuity of policy. This is considered necessary to provide sufficient capital and enterprise essential for rapid and orderly industrial development. Further, permanency would command better expert technical knowledge and maintain a more dis-interested and detached attitude in their recommendation than a temporary *ad hoc* board.

Question No. 74—

Ans: 243. An organisation of the nature of a Trade and Industrial Planning Commission may have its advantages. But they are secondary. The industrial policy of the Government envisages development of defence industries, basic and key industries etc. A trade and planning commission may be set

up and entrusted with the work of planning but the work of implementing Government's fiscal policy should be done by a specialised organisation as the statutory Tariff Board. Of course, collaboration and co-operation is necessary between the two Bodies.

Question Nos. 75, 76 & 77—

Ans; 244. Refer answers to question Nos. 72, 73 and 74.

Question No. 78—

Ans: 245. The Fiscal Commission of 1921-22 observed that the "Board must be a permanent body" and that "consistent decisions and continuity of policy are of primary importance" and that these could be served only by a permanent Tariff Board. The Fiscal Commission have nowhere insisted that the Board should be a statutory body which the commercial organisations have time and again been insisting upon. Though the Fiscal Commission recommended a permanent Board, Government did not implement it but set up only *ad hoc* boards. The experience of advanced countries only emphasise the importance of permanency. The consequences of an *ad hoc* body are far reaching and vicious. It is agreed with the Fiscal Commission that a permanent body secures consistent decision and continuity of policy; further, permanency would have a disinterested and detached approach than a temporary *ad hoc* Board. It is considered that a statutory position for the Tariff Board would confer on it, high standing, which would attract men of ability and integrity to serve on the Board.

246. As regards composition, the Board should be considerably enlarged. The qualifications of the members of the Board, according to the Fiscal Commission of 1922 were high ability, integrity and impartiality. We endorse the above view but would suggest that members selected to serve on the Board should have rich industrial and administrative experience in addition to a knowledge of economic problems of the day. In this connection, attention is also drawn to the minute of dissent by the Minority on the Fiscal Commission of 1922 who were of the opinion that the Board should consist of two assessors representing trade, commerce and industry by election by the leading Chambers and mercantile associations in the country. The Fiscal Commission were of the view that no definite interests should be represented on the Board. But it is worthwhile to consider the recommention of the minority.

247. As regards personnel, the number is placed by many, besides, the Chairman, between three and seven. Security of tenure is quite necessary for a complete examination and an impartial judgement of the cases that come before the Board.

Question No. 79—

Ans: 248. It is the general opinion that the functions of the Tariff Board should be widened. The Tariff Board visualised is a dynamic body which will of its own initiative be in a position to consider independently the cases of industries and put in recommendations to the Government. A perusal of the recommendations of the Fiscal Commission of 1922, in regard to the appropriate functions show that besides investigation of the claims for tariff protection they include a large number of other functions as enquiring into such questions as preferences or the operation of excise duties and how they affect Indian industries, how commercial treaties affect Indian industries, etc. But the Tariff Boards set up all along were of a temporary nature. Therefore, functions assigned to them were of a limited character.

249. The Tariff Board should have powers to investigate both on its own initiative and on the application of an interested party or on account of a reference by the Government, problems relating to the development of industries by protection or other forms of state assistance and to make recommendations in that connection. It should make a continuous study of the trade movements, tariff changes and prices in the world, particularly those in which India is interested directly or indirectly. It should report on the working of the Indian tariff and its results and make suggestions for suitable changes, if any, are required. The Board should watch the working of existing commercial treaties with other countries and suggest new ones, if likely to help in the industrial progress of the country. The form, the classification and other technical aspects of the tariff should be reviewed by the Board from time to time, with a view to improve them in the light of the requirements of the trade on the one hand and of the latest improvements in other countries on the other.

250. Special questions relating to tariff and industry, such as alleged cases of dumping, schemes of Imperial Preferences or Empire Trade Agreements, tariff treatment given to Indian manufacturers abroad, complaints against manufacturers abusing the protective system and such other matters are really vital to the industrial development of the country should be first investigated by the Board before any decision is taken.

251. In order that the work of the Board may not be unduly hampered, it should have general powers to investigate and recommend any step that it may consider to execute the industrial policy outlined above. Arrangements should also be made for co-operation with other departments and officers of the State. In its work of collecting data, it should be promptly assisted by all other Government Departments, Central and Provincial.

252. For the same purpose, it should establish relations with commercial and industrial bodies as well as with Universities and research institutions. Businessmen should also help the Board with any information required of them; the information obtained should be treated as confidential.

253. It is desirable that the Tariff Board should state its economic conclusions separately from general recommendations and that these conclusions should be published unless publication is clearly against the public interest temporarily or permanently.

254. In this connection, the experience of the Australian Tariff Board is instructive. The Minister of Trade and Customs has to refer to the Board for enquiry and report matters relating to (1) classification and valuation of goods, etc; (2) proposals for new increased, reduced or deferred duties; (3) granting and effects of bounties; (4) the intermediate and preferential schedules; (5) any complaints against manufacturers abusing the State aid afforded to them by the Tariff; (6) the general effects of the working of the Customs and Excise Tariff on the industries of the country; (7) the fiscal and industrial effects of the Customs Laws; (8) the relative effects of the duties on raw materials and on finished goods (and partly finished goods); and (9) any other matters affecting the encouragement of industries. The Board is empowered to recommend after a careful enquiry into the conditions of an industry, about which a complaint is made, that the amount of duty payable to its commodities be abolished or reduced or that such action might be taken as the Board deems fit. The Board is empowered to enquire and report on its own initiative on any matters relating to subjects in (6) and (9) above. Thus the powers of the Australian Tariff Board are fairly wide and it has initiative in certain respects.

255. It may also be noted that in listing the above functions we have taken into due consideration the functions approved by the Fiscal Commission 1922 as well as those assigned to the Tariff Boards of 1945 and 1947.

Question No. 80—

Ans: 256. It is clear from the foregoing sections that the existing functions of the present Indian Tariff Board as laid down in their Resolution of November 1945 and August 1948 are inadequate. The functions allotted to the interim Board may be adequate for the limited purpose for which they are intended. They touch only industries which were either born or developed during war time and it touched only the fringe of the industrial problem in the country. In the preceding answers it has been pointed out that the policy that Government had been following was out-moded and that a permanent statutory body with wide powers is necessary. The functions that are expected of it have also been listed.

Question No. 81—

Ans: 257. It has been stated while answering questions 72 and 73 that the Tariff Board should be considerably enlarged and suitable sectional organisations as investigation, technical, etc. be attached to the Board to assist it at every stage of work.

Question Nos. 82 & 83—

Ans: 258. We do not suggest any modification in the procedure. What we desire is that the Tariff Board should not pursue their enquiries under rigid conditions but should consider the application for protection by reference to whether or not such protection help the strengthening and development of the national economy. It is desirable that each industry should be required to show cause for the need for protection it has applied for. The Tariff Board would need to develop its own technique for examining and reporting upon the industries. And the Board should conduct them on its own initiative or as a part of its regular routine.

Question Nos. 84, 85 & 86—

Ans. 259. All the three questions are taken together and answered as they refer to the procedure.

260. It may be asserted that the procedure at present followed is dilatory.

261. The industry seeking protection applies to the Government in the Ministry of Commerce. If a *prima facie* case is made out in the opinion of the Ministry the matter will be referred to the Tariff Board for enquiry. After a preliminary consideration the Tariff Board issues a questionnaire and invites the opinion of those interested in the problem. The Tariff Board is to continue its enquiry and make its recommendations within the limits imposed by Government's policy. The recommendations of the Board may or may not be accepted by the Government. In due course legislation is proposed on the recommendations of the Board with which Government are in agreement. As a rule the measures are temporary, in most cases they have a definite limit after which they must come up for reconsideration by the Legislature, if on a fresh enquiry by the Tariff Board the continuation of the measures is considered necessary.

262. The dilatory nature of the procedure was evident in the treatment of the cotton and steel industries. The procedure followed in England affords a good contrast. An industry in need of protection is given the protection

by the executive authority; a temporary duty is at once imposed; investigation follows in the light of which the temporary is put on a permanent basis with necessary changes.

263. Delay in giving protection is as bad as denial. The machinery of the Tariff Board should therefore ensure speedy investigation. The Tariff Board visualised is an expert and impartial body and as a rule its recommendations should be acceptable to Government unless there are very strong and compelling reasons as to reject such recommendations. Therefore, it is felt that it would be more conducive to prompt and speedy work if the Tariff Board is authorised to receive applications directly and initiate enquiries. While discussing the constitution of the Board in answer to Question 78, it has already been suggested that it is desirable to set up separate specialised organiations under the Tariff Board to assist it in its work.

264. We would also suggest fixing a time limit by which the Board should complete their enquiries and make their recommendations.

Question 87—

Ans: 265. Yes. The Tariff Board is an expert and impartial body; as a rule its recommendations should be acceptable to Government. Where Government reject the recommendations of the Board the reasons should be convincing. In such cases, Government in fairness to the public should publish the reasons for declining protection to any industry despite the Board's recommendations.

Question No. 88—

Ans: 266. It has already been stated above giving reasons that the Board should be a statutory body. The duties and functions entrusted to it should be determined by the Legislature. The general procedure to be followed and the manner of enforcement of the obligation of protected or assisted industries need not be laid down by a statute. They may have to be modified from time to time to suit the changing conditions. The Executive may be vested with power to take action for a short period pending the approval of the Legislature.

Bharat Chamber of Commerce, Calcutta.

I am directed by the Committee of the Bharat Chamber of Commerce, Calcutta, to forward the views of the Chamber on some of the problems referred to in Part I of the Questionnaire issued by the Fiscal Commission as hereunder. Replies to Part II of the Questionnaire were sent along with our letter dated the 30th July, 1949. As desired, 15 copies of our replies to Part I of the Questionnaire are being sent herewith.

Section A(i)

Changes in the economic background since 1922-23.

Question No. 1.—The changes that have taken place in the economic structure of the country since 1922 call for an entirely new approach to the problems with which the Commission is concerned. Not only India has just emerged out of the shell of colonial economy but constitution of Pakistan has completely changed the pattern of Indian economy necessitating the re-orientation of the fiscal policy. It needs hardly any mention that political subjection was a great handicap in 1922 when the Fiscal Commission reported and independent India has to launch a bold policy of utilising the industrial

potentialities of the country by setting up new targets for industrial and agricultural development. The recent devaluation of sterling in relation to dollar has also called for a vigorous policy with a view to stepping up Indian exports.

Question No. 2.—Partition has brought about a big change in the agricultural situation of India in respect of production, consumption and international trade in agricultural commodities. Production of foodgrains has not as yet shown any appreciable progress particularly in view of the alarming increase in population. From all accounts our needs for imported food have been far greater than those before the war. Although some progress was made by bringing a total area of over 56m acres under irrigation (in 1941-42), India after the partition is in heavy deficit in regard to foodgrains. There has also been a fall in the acreage of cotton and jute and production of these crops has been further reduced after partition, the total production of cotton and jute in terms of bale being 5.1 and 6.8m in 1938-39 against 2.1 and 1.9m in 1948. Similar is the case with oilseeds (except groundnuts).

It is rather difficult to point out the changes in respect of consumption but to all appearances there has been a greater demand for internal consumption as is revealed by the different control measures.

It needs hardly any mention that partition again has been responsible for changing the pattern of international trade in agricultural commodities of India. She is now an importer of jute and cotton besides during the last war there was a heavy pressure on demands for internal consumption of the various agricultural commodities as a result of which the old pattern of trade was changed and there was a decline in the export of raw materials and semi-manufactured, processed or manufactured articles were being increasingly exported. India, as at present situated, can, however, maintain her export trade in tea and coffee, some quantity of jute (to be imported from Pakistan), tobacco, oilseeds, cotton, myrabolam, pepper and certain forest products.

Question No. 3.—The country has lost some of her traditional markets for agricultural produces but her manufactured products have not yet been able to capture foreign markets and as such the balance of payment position has deteriorated. The lack of progress in Indian agriculture particularly in the food sector will be responsible for halting the industrial development and the Fiscal Commission has to consider measures for bringing about a poise between agriculture and industry.

Question No. 4.—It is too late in the day to reiterate that India must be self-sufficient in food by mechanising and/or modernising the agricultural industry. It is admitted on all hands that unless foodgrains are made available at a cheaper rate the high cost of labour and raw materials will make intensified industrialisation almost impossible. The various improved methods of cultivation and measures that are called for an increase in the yield and acreage are well-known but the Chamber feels that unless a special corps of officers responsible for increased production in their respective zones is created and a short term programme launched with a view to assisting the man behind the plough practical results inspite of mechanised cultivation of certain areas may not be achieved particularly in the matter of making the foodgrains available at a cheaper price. Regarding non-food crops, measures are also necessary for crop planning and scientific storage in rural areas.

As regards mineral resources a definite policy of conservation and proper utilisation for consumption and export purposes is required.

Question No. 5.—Although some industries like iron and steel, cotton textiles, sugar, paper, gold and silver threads, and artificial silk have received protection during the last few years, and some new industries were encouraged during the war, industrial progress in India has been negligible in

comparison with other countries. Credit for the meagre progress that has been made despite great handicaps must go to the Indian entrepreneurs and the national support they had at their back. The encouragement that has been so far given by the Government has been step-motherly. If a reference be made to the Monthly Statistics of the Production of the 56 Selected Industries of India published by the Ministry of Industry and Supply, it will be seen that the barometer of industrial conditions in India does not give any cause for satisfaction, although position has certainly improved since 1947 when industrial progress reached the nadir of depression. The Chamber would point out that so far India has no basic or key industry worth the name.

Question No. 6.—The Committee would point out in this connection that increased production is called for even in respect of our established industries such as textiles, steel, paper, and that during the war some of them found their supplies of essential raw and processed materials as also stores cut off. Nor has India develcped metallurgical and other subsidiary and auxiliary industries.

(a) To put it briefly, defence industries, key industries and consumer goods industries, such as cotton and woollen textiles, silk and artsilk manufacture, woollen manufacture, match manufacture, bicycles manufacture, starch manufacture, glass industries, aluminium industries etc. should have priority.

(b) The Commission is aware that only recently provisional production targets for 1950 have been fixed by the Government of India for 14 industries including coal, steel, cloth and sugar in conformity with the recent decisions of the Standing Committee of the Central Council of Industries. In most cases the targets are just below the existing installed capacity but considerably higher than the production figure for 1948. In regard to coal, however, the target for next year is 31m tons, compared with the present installed capacity of 30m tons indicating the possibilities of an expansion of the existing facilities for mining.

(c) Overhead and operative costs are bound to be uneconomic until the Government assist the management in rationalisation.

(d) The Committee would suggest that the quality of management requires improvement and measures must be taken for supplying Indian management with improved technical know-how.

(e) It is generally admitted that industrial development in India requires a huge capital and as such foreign capital should also be invited with due safeguards.

(f) The minimum quantity of raw materials to be imported should be appraised with the help of an Expert Committee and every effort made for importing the same from abroad. Abundant supply of raw materials that are available in this country can be arranged only if some positive measures are taken for develcping our resources on a scientific line according to a plan. In this connection transport facilities should also be stressed particularly in the matter of moving coal. The Government has already launched different river projects but it is regretted that some of them have to be kept in abeyance owing to the economic crisis The Committee would suggest that ways and means should be found to economise in other departments with a view to pursuing these projects at full speed.

(g) & (h) These two problems require urgent measures for technical education and re-orientation of the present system of school and university education. As a short term measure arrangement should be made for imparting technical knowledge with the help of the industries. The Committee are glad to note

that the Government of India are already taking steps for bringing technical personnel from abroad.

(i) The efficiency of labour has deteriorated from all accounts. The Committee are constrained to observe that the plethora of labour legislation and the working of the Industrial Disputes Act are two of the principal causes of this state of affairs. It requires a bold policy to rationalise the industry and make the labour feel that they have to earn their wages by putting in a minimum amount of work.

Question No. 7(a).—The small-scale and cottage industries are still playing a very important part in the economy of this country. It is well-known that the agriculturists in India, by and large, are not engaged in agricultural operations throughout the year and fall upon, where they can, some subsidiary occupation. Weaving, carpentry, tannery, pottery, doll-making etc. are some of the instances but it is well-known that these small industries are unorganised and some of them are dying a slow death due to lack of proper care.

(b) All these should be integrated according to a plan. It is needless to mention that a number of small-scale industries can thrive depending on large-scale industries In this connection, possibilities of decentralisation of industry may also be taken into consideration.

Question No. 8.—In an agricultural country like India it need not be pointed out that both will play a significant role not only in the economic development of our country but also our political progress on a desirable line.

SECTION A(II).

Question No 9(a).— Poultry, gardening and vegetable culture, fruit cultivation, basket-making, paddy husking, gur making, cotton ginning etc. etc..

(b) Motor repairing, bobin making, hosiery, manufactures of iron furniture, soap, dyeing and bleaching, dairy, tannery, gold and silver thread etc.

(c) Bangles making, oil pressing by ghanis, toy making, canning, canning fruits, tiles and bricks, pottery, fire works, snuff, plates, glasses, carpet making, biri making, hand-weaving etc. It may be mentioned here that the National Planning Committee has given a list of 41 such industries

It may also be mentioned that in many areas in India rural artistic industries have acquired celebrity. Familiar instances are—lac and toy manufacture in Budaun, Meerut, Mirzapur etc. in U.P., at Bolpur in West Bengal, at Chennapatna in Mysore, at Parlakimedi and other villages in Madras; Carpet weaving in Mirzapur and Benares; silk weaving in the villages of Murshidabad, Maldah, Madura etc.; metal work in Baidyarajpur in Bihar, Shantipur, Bishnupur, Khagra in West Bengal; artistic clay modelling in Mirzapur (U.P.) and Nadia (West Bengal), paper making, manufacture of pith sun-hat, comb, and vegetable dyes in various rural centres.

Question No. 10.—There are a number of such products some of which may be very good dollar earners, particularly artwares, brass-artwares, ivory carvings, cotton and silk embroidery, filagree works of all other kinds. The Committee are aware that the Government of India have already taken up the matter in their hands.

Question No. 11.—If there is a proper plan cottage or small-scale industries should not be affected by giving protection to large-scale industries. The problem is one of scientific and comprehensive plan.

Question No. 12.—The main handicaps have been listed under sub-clauses (a) to (h) of this question. The Committee are glad that the Government of India have already established a Cottage Industries Board. In this connection mention may be made of the following main recommendations made at a Conference convened by the National Planning Committee:

(i) Establishment of a permanent All India Cottage Industries Board in addition to the All India Handloom Board;

(ii) Establishment of a separate Directorate of Cottage Industries under the Ministry of Industry and Supply;

(iii) Subventions by the Central Government to the All India Cottage Industries Board and also to the All India Handloom Board;

(iv) Separate provision in the distribution of raw materials in short supply and priority assistance for Cottage Industries;

(v) The special interests of Cottage Industries should be borne in mind by the Tariff Board while framing its recommendations regarding industries referred to it;

(vi) Provincial Governments should establish separate Departments of Cottage Industries;

(vii) Yarn for Hand-loom Industry to be the first charge on the spinning-mills;

(viii) Central Government's Trade Commissioners should pay special attention to the marketing of Cottage Industries' products;

(ix) Formation of Provincial Cottage Industries Co-operative Banks to finance Cottage Industries;

(x) So far as basic needs regarding food and clothing especially of rural areas, are concerned, we should attain self-sufficiency primarily through the development of Cottage Industries;

(xi) Railway freight rates to be adjusted to give preference to the products of Cottage Industries;

(xii) Expediting the starting of the Leather Research Institute in Madras with a special section for Cottage Industries. Special attention to the interests of Cottage Industries in all National Research Institutes;

(xiii) Special missions to Europe and Japan in the interests of Cottage Industries.

Question No. 13.—In the recent bilateral trade agreements some of the countries like Czechoslovakia, Egypt and Switzerland have been able to make arrangements for exporting some of her cottage industries' products to India but although India has some bargaining power in regard to the export of jute manufactures, tea, and some other commodities, it has not been possible for her to make any such arrangements for exporting her cottage industries' products. It is confidently hoped that such attempts will be made in the future.

Section B.

Policy of discriminating protection and its application since 1923.

Question Nos. 14 *and* 15.—The recommendation of the Fiscal Commission appointed in 1921 resulted in retarding the industrial progress of the country. Upto the period of the second war of 1939—45 the fiscal policy of India was a mixture of protective-cum-productive duties. It was designed to support the British economic position which had received rude shock during the war of

1914—18. Government's policy was for a long time such that not only there was no protective or fostering of indigenous industry but even the slight, invisible advantage of distance adding c.i.f. charges on British goods coming into India was deliberately counter-balanced by what were named "countervailing excise duties" on the most important of the Indian competitor of British goods, namely, cotton textiles, and not until 1926 were these excise duties removed. The Indian sugar, match, cement, iron and steel and other such basic industries have been built up only by the aid of some protective tariff. The Chamber Committee feel that without some kind of protective or fostering fiscal policy, giving tariff protection to indigenous industry, direct state aid, industry of a modern type will have no future in India. Inspite of overwhelming arguments in favour of granting protection it was not given to heavy chemicals industry, glass industry as also woollen industry on one or other grounds.

Question No. 16.—In the opinion of the Chamber the policy of discriminating protection as enunciated by the Fiscal Commission in 1922 will prove a great handicap for industrial progress in this country.

Question No. 17.—Among the supplementary measures recommended by the Fiscal Commission, the Chamber agrees with the view that India requires the services of a number of technical personnel. But it is regretted that no appreciable steps have been so far taken to implement the recommendations made by two experts—Messrs. Abbot and Wood, invited by the Government of India, although they submitted their report in 1937. Another recommendation, namely, need for re-orientation of railway rates policy has also not been implemented although some concessions have been made in respect of certain industries. The Committee have on other occasions expressed their definite opinion that the rate structure should be completely overhauled.

Question No. 18.—The Committee have no observations to make except what has been made generally in reply to the previous questions.

Question Nos. 19 *and* 20.—No doubt the conditions of protection were a bit liberalised particularly in view of the fact that the Tariff Board was required to examine whether the industry applying for protection was one which ought to be given assistance in the national interest, but what India requires today is a completely national fiscal policy. The Board which was appointed in 1945 and re-constituted in 1947 with certain additional functions, is from all accounts helpful to the Indian industries. But as the Committee pointed out to the President of the Board when he was pleased to meet the Chamber in December, 1947 "the scope of the Tariff Board should be widened and the Board itself should make preliminary examination of the applications and after satisfying itself undertake the investigation of their claims as per terms of reference".

SECTION C.

Review of the effects of the past tariff policy.

Question Nos. 21 *to* 30.—The Chamber has no comments to make except to observe that India lacking in political power had only to follow the apron strings of Britain and support Britain's fiscal, financial or economic policies.

SECTION D.

Factors in the formulation of a new fiscal policy.

Question No. 31.—During 1939-45 there was a rapid increase in the value of the export trade in the goods wholly or mainly manufactured and the percentage shares of manufactures imported into the country was 60·8 in 1938-39

against 38 in 1943. There was a sharp rise in the imports of raw materials in 1943-44 whereas on the export side manufactures recorded a considerable increase. In 1944-45 out of the total exports of Rs. 240·39 crores, raw materials of industry accounted for Rs. 69·71 crores or about 29 per cent., while manufactured goods accounted for Rs. 110·64 crores or about 46·7 per cent. It may be also mentioned that from 1945 a comparatively increased percentage of foreign trade is being directed to non-Empire countries particularly U. S. A., but due to heavy imports of food and of capital goods there has been an alarming adverse balance of trade. It may be also stated that due to the emergence of the buyers market some of the Indian commodities have lost their foothold in foreign markets.

Question No. 32.—The liberalisation policy in regard to import trade control pursued from July, 1948 cannot be justified and the Committee do not agree with the views expressed by the Hon'ble Commerce Minister at the first meeting of the Import Advisory Council held on the 26th February, 1949, that import restrictions were not the appropriate methods for affording protection to industry. The Committee feel that import control should be integrated with the tariff policy. Constant changes in the import policy have also done a lot of harm not only to the trade but also to the industry. The legislation as well as administration of export control also hampered India's export trade. Briefly put, foreign trade has not been planned and changes from time to time are being made in the control measures introduced during the war with the result that neither the industry has got any stimulus nor the export drive any tempo.

Question No. 33.—There has been no appreciable change for the better in the matter of realisation of the ideals set before the country by the Fiscal Commission in 1922.

Question No. 34.—In the opinion of the Chamber both fiscal measures and non-fiscal measures should be integrated with a view to protection and development of Indian industries.

Question No. 35.—It has been already stated above that without some kind of protective or fostering fiscal policy industrial development in India cannot make a fair progress. The export trade is to be directed as a part of public policy so as to finance our imports and in this behalf an appropriate tariff policy is essentially required along with other measures for giving assistance to the trade and industry.

Question No. 36.—It is the definite opinion of the Chamber that the immediate aim of a tariff policy should be to increase industrial and agricultural production and to maximise exports. Steps also should be taken to save the war-time babies, *i.e.* the industries started during the war period.

Question No. 37.—The Chamber quite agrees with this view of the minority report of the Fiscal Commission.

Question No. 38.—As far as possible most liberal conditions should be laid down for regulating the grant of protection or assistance. National interest should be one of the principal criterions. If such an industry is likely to have an adequate home market or a good market abroad all possible assistance should be given for its existence and development.

Question No. 39.—The first priority must go to the defence industries, the second to basic and key industries, and the third to consumer goods industries.

Question No. 40.—The Chamber agrees with the view.

Question No. 41.—Protective import duty is one of the principal methods for protecting industries. But the consumers must not be made to make heavy sacrifice for an indefinite period; nor the development of other means of creating

wealth should be neglected. It may be stated that tariff concessions are being granted now for developing trade between the contracting countries.

Bounty or subsidy is another method of protection. This method of regulation through price-mechanism has been adopted by many progressive countries. Subsidies or bounties may be given for the purpose of developing industries in an under-developed country like India. They are also given for increasing the tempo of export.

The Government of India has very rightly given protection, however inadequate, to the Aluminium Industry. This is better than the price pool which is at best a war-time measure.

Quantitative restrictions on export and import are very appropriate measures as a defensive and as a development measure.

Import duties may not be adequate unless they are combined with quantitative restrictions.

Question No. 42.—The Chamber will make no comments.

Question No. 43.—The Committee of the Chamber are in favour of doing away with all export control measures except in respect of raw materials which are in short supply and essentially required for our industries.

Question No. 44.—Export of products of established industries can be stimulated by (i) subsidies, (ii) tax relief and/or (iii) freight relief. In this behalf national shipping plays an important role.

Question No. 45.—The production cost of the fair selling price of the indigenous products is generally compared with the landed cost of the imported product in fixing the quantum of protection. But it is not easy to calculate the real costs of production of imported products as foreign manufacturers try to evade the disclosure of this information and land-cost is manipulated by various methods. It is also very difficult to estimate the future trend of prices. The Tariff Board, which should aim at fixing the minimum rate of protection, must take a long view and take into consideration certain special factors such as high cost of capital goods, replacement costs etc.

Question No. 46.—For protective industries various forms of tariffs such as *ad valorem*, specific or compound duties are imposed. *Ad valorem* duties prove disadvantageous to the importer, particularly when prices tend to rise. But specific duties under conditions of rise in prices fail to serve the purpose of giving protection to industries. A combination of the two, the basis remaining a uniform *ad valorem* rate will be in the interests of both producer and consumer, if specific duty is adjusted to meet the price fluctuation.

Question No. 47.—Replies have been given in the above paragraph.

Question No. 48.—Tariff quotas in place of fixed import quotas may result in complications and administration of the import control measures may be rendered difficut.

Question No. 49.—A reasonable time-limit should be laid down for continuing the protection granted and each case should be judged on its own merit. The burden of proof that protection should not be cancelled will naturally, particularly in the present political set up, fall on the industry.

Question No. 50.—It is felt that the existing classification should be revised with the help of an Expert Committee.

Question No. 51.—The objectives of a long-term fiscal policy for India must necessarily be integrated with an appropriate national policy envisaging a complete programme of national progress. In the context of industrial development, it must contain appropriate tariff measures to utilise the country's resources, safeguard and promote indigenous industries.

The content of India's foreign trade has undergone a great change during and after the war and its pattern in relation to export and import has been taking a different shape. Export of manufactured and processed goods needs stimulation and new foot-holds are to be created in foreign markets. India also needs capital goods and machineries. Above all, the balance of payment position must be improved by all means.

Question Nos. 52 and 53.—The Committee of the Chamber would point out that state trading or constitution of any state-owned or state-sponsored organisation for handling any sector of the country's foreign trade will not improve India's foreign trade nor will be able to manage any sector of foreign trade more efficiently. The Committee also feel that the Government has neither the background of business knowledge and experience nor has yet a set of definite economic objectives to guide them and as such they would be taking a great risk in launching any programme of state trading to be guided by the complicated and not very clear articles of the Havana Charter. The Committee of the Chamber would, however, concede that foreign trade and as a matter of that the internal trade of the country cannot be left uncontrolled and unorganised, because in view of the operation of the internal trade controls, control of the private sector of foreign trade will also be necessary to ensure stability of prices, production, employment and income. The Committee are definitely of the opinion that for assisting the export trade there must be a state-sponsored institution to supply export credits on the lines of the Export Credits Department created in Great Britain after the first world war and the Export Import Bank of U. S. A., which have proved to be powerful instruments of trade drive in those countries.

In this connection the Committee would point out that except in a totalitarian country state trading can be thought of only as an emergency measure. The Committee are of the opinion that the situation in India is not so desperate as to justify an experiment of this kind particularly when co-operation of all sections of people including trade and industry is urgently needed for the economic development of the country. The Committee would further point out that in the present state of affairs when both the Government and the industry as well as the trade are finding it difficult to provide more employment it would be a dangerous experiment inasmuch as state trading will oust a good number of people from their present occupation. Besides, the Committee feel that the personnel that will be engaged for state trading may be utilised more profitably in the work of promotion of the foreign trade of India. The Committee would also suggest that an authority may be constituted in India on the lines of the Board of Trade in U. K., which has the care of overseas trade and the guidance of industry and trade at home. There should also be export and Import Associations with subordinate bureaus representing different classes of products.

SECTION E

Non-fiscal measures for the promotion of trade and industry

Question Nos. 54 to 57.—The Committee have already pointed to the need for scientific and technical training as also revising the railway rates policy. Every assistance must be given to the industry for securing essential raw materials. It need not be reiterated that import of essential machineries is

also to be kept in view. The Chamber also feels that selective export subsidies to obtain necessary imports are indispensable. As a matter of fact export trade is subsidised even in highly industrialised countries like U. K. and several methods of giving financial assistance to the export trade have been adopted in some progressive countries. For instance attractive rates of drawback have been allowed to British manufacturers exporting cigars, cigarettes, and other manufactured tobacco, whereas similar facilities are not being given in our country to the manufacturers who are to compete in Australia, Burma, Malaya, and Pakistan with U. K. tobacco manufacturers. Again under section 42 of the Sea Customs Act, the duties are refunded to the extent of 7/8th on such goods which are re-exported in the same shape. As such drawback is allowed to aluminium ingots, sheets and circles if they are re-exported in the same shape but not to aluminium utensils made in India out of these imported sheets and circles. If drawback were allowed to aluminium utensils India could export to Pakistan, Malaya, Singapore, Ceylon, and Aden, and even to Middle East Countries utensils worth about one crore and fifty lakhs of rupees.

It may be mentioned here that some departments of the Board of Trade in U. K. deal more with home affairs. The industries and manufactures department is divided into sections. One deals with the distribution of goods, specially those are in limited supply, which have to be rationed to home consumers. Another section of this department is concerned with the production of a great variety of goods, how to increase their production, and how best to meet foreign competition. A third section deals with the industry itself—how it can be strengthened, if new scientific discoveries can assist it, or management and control be improved. Working in close touch with these departments is the Planning and Priorities Department. There is also a Raw Materials Department which is responsible for most of the raw materials other than metals used by manufacturers. The Committee are aware that the Government of India have already undertaken to give financial assistance to certain industries through the Industrial Finance Corporation and are considering to extend its scope. The Committee are of the definite opinion that a planned programme should be launched with a view to assisting and guiding the trade and industry.

Section F

Fiscal Policy in relation to Commonwealth preference

Question Nos. 58 to 65.—In the present political and economic set up India ought to exercise the freedom of having a preferential tariff if thereby the trade is benefited. As a matter of fact India is entering into so many bilateral trade agreements with non-commonwealth countries. The Committee do not feel that India has been able to show her bargaining strength by any trade treaty either with the U. K. or other countries. At present India has to give special stress on increased exports to dollar countries and decreased imports from hard currencies and co-operation with sterling area and as such her fiscal policy in relation to commonwealth preferences will have to be adjusted.

Section G

Treatment and obligations of protected and assisted industries

Question Nos. 66 to 71.—The protected industries have certain obligation in the matter of achieving substantial progress by reducing costs and improving the standard. The Committee are of the definite opinion that a great leeway has yet to be made in the matter of management, efficiency, standardisation and technical known-how. The Committee, however, feel that delicate matters like

price structure and wages should be carefully dealt with in consultation with the industry. The Committee are also of the opinion that the Tariff Board should review the progress of the protected industries from time to time.

SECTION H

Organisation methods and procedure

Question Nos. 72 *to* 88.—The functions of the Tariff Board must necessarily be of a most weighty and complicated character and the personnel must combine skill and training in the analysis of the most complicated economic phenomena. It needs hardly any mention that they must have an adequate staff with the appropriate technical, commercial and administrative knowledge of the different industries as well as capacity for dealing with labour problems. It is also felt necessary that the Board should be free as far as possible from the routine control of the Ministry of Commerce and as has been already pointed out the Board should make preliminary examination of the applications and then proceed with their enquiry. The Committee are also of the opinion that the Board should be placed on a statutory basis and its functions should be prescribed in the light of the industrial policy adopted by the country.

Question No. 89.—The preambulary propositions as set forth in the objective article 1 of the Havana Charter are wholly unexceptionable, judged on a purely theoretical plane. In the factual context of the current world economic situation, the very formulation of these propositions would seem to appear as unrealistic. During the last year, multi-lateralism in the sphere of international commerce was particularly made a chief plank of U.S.A.'s world policy in the post-war years. The American economic depression of the thirtees did not entirely work off by the time when the war broke out and when U. S. A. unemployment still stood at 8 millions against a working population then estimated at 60 millions. American opinion to the extent it was not influenced by political ideology, regarded the war as an opportunity to break down the colonial superiority of U. K. in the market. The International Monetary Fund, the terms of Anglo-U.S.A., proposals for International Organisation are cognate aspects of the same strategy planned by U.S.A. for her post-war policy of commercial and financial multi-lateralism. The multi-convertibility of world currencies have been given a trial and have broken down; and it is not the International Monetary Fund but vested economic interests of the sterling block that have been preventing a devaluation of sterling, much heavier than what International Monetary Fund was at any stage preferred to consider, far less allow. In Havana between November 1947, to March 1948, the final hammer on the draft charter was struck against a deepening economic crisis in Western Europe and almost simultaneously with the commencement of Marshall Aid in operation in that world sector.

Question No. 90.—The crucial articles in these behalf are those numbered 13 and 15 in Chapter III of the Charter, the former relating to non-discriminative measures of a member Government and the latter to the Customs preferences granted by them to another member or members of the Organisation. In both cases, provision is laid down for automatic approval of such measures by the Organisation under conditions specified. While the relevant provision for automatic approval is satisfactory in so far as article 15 is concerned, the corresponding provision embodies in article 13 does not appear to be free of all potentialities of International misunderstanding. It occurs to the Committee of the Chamber that a member Government in applying non-discriminative measures under Chapter III will presumably place maximum reliance on the provisions of paragraph 7(a) (iv) of Article 13 designed to ensure automatic approval by the Organisation. Yet the provision entails so much matters of opinion rather than of facts that a member

Government having applied certain measures for the economic development of a particular industry in anticipation of automatic approval may eventually find their action declared inconsistent with Charter's obligations. To illustrate the eventuality envisaged, let it be assumed that in the interest of developing an Indian Rayon Industry, the Government of India on a date subsequent to the entry to the Organisation decides to place a quantitative restriction on the import of Japanese rayon yarn and goods and on Italian rayon yarn, it may be questioned by the International Trade Organisation later whether having regard to economies of Indian rayon industry the action taken was the most suitable one. On the whole, the Committee of the Chamber take the view that action under Chapter III of the Charter will entail a procedure of a member Government having to pilot its case for proposed measure through a hearing by what in effect would be an International Tariff Board, as understood in this country.

Question No. 91.—The reply has been largely anticipated under answer to previous question. It is in Committee's view entirely powerless to formulate India's minimum requirements at this stage, when the Charter provisions are no longer in a fluid state. Further, the formulation of such requirements will depend on what Fiscal Policy the Government of India actually adopts in the light of its own ideas of social pattern, the expert advice and the public opinion generally. In the current price-inflated economy of India, there is almost an overwhelming case for protection for many industries; yet a tariff assistance may have to be ruled out in many instances as calculated to worsen the price-inflationary trend. One of the grounds indeed on which India should not assume the Charter's obligations is the fluid state of India's price production relation in what is essentially an extremely difficult transitional phase of economy.

Question No. 92.—Although paragraph 1(c) of article 12 is open to some criticism the Committee of the Chamber do not wish to shift the scale more against the investment of Foreign Capital in this country. In the opinion of the Chamber there is an acute shortage of investment Capital in India at the moment relatively to her development programme and the Charter provisions are not such as may be regarded as prejudicial to her interest.

Question No. 93.—On the three-fold planks of an International Commercial Policy laid down in Chapter IV of the Charter, *viz.*, most-favoured-nation, tariff treatment eschewing of import restriction and grant of export subsidy within the margin of non-dumping, little comments need be offered. For, each policy proposition has been whittled down by too many reservations, made with the express purpose of regularising deviations in the current international practice. Yet, the Committee of the Chamber even after taking full account of the provision of Article 23 ("Exception to the Rule of non-discrimination") would point out that clause 5(d) of the Article 21 may lead to serious complication in the actual operation of quantitative restriction applied by a member country. Indeed, the balance-of-payment position of most countries including India is at the moment so out of equilibrium that it will be risky for India to agree to face a challenge within the organisation of any drastic measure which she may have to be forced into taking to safeguard her international and her foreign credit and to implement at the same time her domestic social policy, this notwithstanding provision of clause 4(b) (i) of Article 21. The enunciation of commercial policy in Chapter IV is commendable in so far as it lays down an objective and is fully realistic in so far as deviations are allowed for in current practice. But multi-lateralism will continue to operate as an incipient weakening factor in the exercise of national policies during the post-war period of a lengthening transition.

Question No. 94.—The reply has already been partly anticipated under previous answer. But the greatest hinderance to India resulting from an adherence to the Charter remains yet to be mentioned. That in Committee's view will emanate from the provision for grant of subsidy on export of goods. The current economic situation in India is dominated by price-inflation and with the stagnation

in production, it is unlikely that production will or what is more important to recognise, can overtake the price-rise. For the reduced buying capacity of the community in the consumption section of industries will prove for a time the most resistent force against an effective production drive in this sector. In the heavier sector of industries, high production cost will adversely affect competition with imported goods in the home market itself, during the period a new price-production equilibrium will be in process. An over-all protective policy to counteract these price-inflated conditions is unthinkable; and the only way out of India's current economic crisis is the expansion and rehabilitation of export markets, both for her industrial products and raw produce. An extensive system of export subsidy is, therefore, what the Committee of the Chamber envisage as a sound national policy for our Government to adopt. Accordingly, they are anxious that the policy pitch is not queered by any prior international obligations like the Charter rendering the grant of export subsidies limited in scope or fettered in any respect. This objection against the adherence to Charter is of course applicable to its short range effects. It is difficult to visualise what the pattern of international trade will be in the long range and as such, to estimate the effects of the Charter on its long range application to this country. The near future of India's economy is so critical and so decisive as to her future, that it is hardly practical politics to foresee the effects of the Charter across its short range application.

Question No. 95.—The answer has been anticipated under the just preceding reply. To bring home the Committee's point of view in terms of concrete illustrations, it may be pointed out that even the first two of India's leading Foreign-exchange-earners, jute goods and tea, may not have an assured future in the world market, if the export prices were not lowered, particularly in view of general price recession stated to be operative in dollar areas and the lowering of prices of many primary commodities of the sterling area. It may be stressed here that one of the factors operating against lower cost of production in India is her own domestic social and economic policy and multi-lateralism in international trade, even on the basis of greatest common measure of agreement shall not admit of adherence by India without a great strain on her chosen domestic social and economic policy. On the question of quantitative import restriction, the reactions of India Government's recent action in cancelling the OGL XI and bringing into force a new OGL XV on British opinion would appear to be significant. Complaints have also been heard of India's favouring preferentially export to dollar areas. Political alignment has not allowed suppressed feelings to be vented with any vehemence. But for India having entered the organisation, it will be clearly indiscreet to reply on this political alignment to vindicate or support her future restrictive action in an international commercial forum.

Question No. 96.—The chief merit of the Havana Charter is that it is a unique experiment and marks the beginning of multi-lateralism in the sphere of international commerce—an objective which every peace-loving democratic country such as India must have near her heart and must strive to promote and work for. On the other hand, it is futile to attempt to streamline the body of a ram-shackled car. Multi-lateralism even on a restricted regional scale has been found hard to work, as in the case of Marshall Aid and related O.E.E.C. Schemes. The greatest hinderance to commercial multi-lateralism today is the relatively insular growth of the economy of dollar area and relapse of world commerce into two financial blocks of sterling and dollar currencies. A disequilibrium in the purchasing power of dollar and sterling is the first *sine qua non* of restoration of world commerce in a multi-lateral setting, such as existed before the world War I under a system of gold standard. If the historical process cannot now be revised owing to factual pressure on the domestic social plane, it serves little useful purpose to recall the ideal on conscious plane and simultaneously to concede its deviation in the practical plane. Bi-lateralism is the obvious direction in

which national commercial policies are moving in an increasing measure. It is not without significance that Britain concluded its recent agreement with Argentina on the eve of a new second year's settlement under Marshall Aid and O.E.E.C. Schemes. Multi-lateralism may have a chance only on regional basis but not on a world basis, as the Havana Charter provides. In the Committee's view, therefore, it should be rejected by India. The balance of arguments is pronouncedly for such a decision.

Question No. 97.—The broad lines of commercial policy which the Committee would advocate for adoption by India are the following:—

(i) Conclusion of a series of bi-lateral agreements with the countries of dollar block, so as to ensure a steady market of Indian raw produce in their respective markets. This should be in the nature of commodity agreements on a reciprocal guarantee of most favoured nation treatment.

(ii) A series of agreements with the food supplying centres of the sterling block, particularly in the event the International Wheat Agreement concluded early in the current year becomes non-operative. There should also be for commodity exchange based on a reciprocal guarantee of most favoured nation treatment.

(iii) An Indo-British trade agreement in replacement of 1939 agreement, based on reciprocal most favoured nation treatment and elimination of mutual preferences, for a commodity exchange.

(iv) A series of bi-lateral agreements, with Asiatic countries, based on mutual preferences, particularly to ensure a steady market for Indian manufactures in these markets.

(v) Lastly, the establishment of a custom union with Pakistan based on a sharing of the Custom Revenue of both countries in an agreed proportion, the scale of tariff being uniform, except in so far as preferences are allowed by each countries under their respective bi-lateral contractual obligation.

The Committee are aware that a series of bi-lateral agreements have recently been entered into by India. But in most cases, the agreements are not calculated to yield much advantage to India and in the case of agreement with Egypt, it reflects the current unfortunate economic relation between India and Pakistan. The Committee are equally aware that the question of a new commercial equation with Pakistan is hedged in and is complicated by many political considerations. But it is the considered view of the Chamber that commercial interests of India should not be allowed to suffer because of outstanding or incipient political differences between the two countries. The policy pursued should generally be a diversion of India's trade relation from Europe to Western Hemisphere and from Japan to other Asiatic countries, as it was before the last global war.

Question No. 98.—No reply does arise in view of the answer to question No. 96.

Question Nos. 99 *to* 104.—Since the protocol on the general agreement on tariffs and trade with seventeen bi-lateral treaties embodied therein was provisionally adopted and subsequently ratified, fifteen more tariff agreements are reported to have been completed in Annency, France, in the month of June. 74 further agreements are said to be under way and 87 under consideration. The Committee have not yet had the opportunity of examining these new tariff agreements. But they do not feel much impressed by these agreements, except by the fact that they are resulting in a wide extension of most favoured treatment to all contracting parties to the agreement at the hands of the individual parties negotiating bi-lateral agreements thereunder.

So far as India is concerned, the Committee do not think that there is any noticeable effect of her adherence to general agreements and tariff concessions, brought into force from July 9 last year. The determining feature of India's foreign trade situation today is the high production cost of Indian exports and the low buying capacity of the consumers in relation to her imports. As it is, therefore, the Havana tariff concessions are an inconsequential factor in the situation. Nor are the Committee aware of any contracting party in bi-lateral tariff agreement with India not playing the game and thus injuring India's export trade.

In view of the policy recommended under reply to question No. 97, the Committee do not favour at this stage any extension of India's adherence to Havana agreement after December 31, 1950. According to Committee's view, the stage should be left completely free of any multi-lateral commitment to enable India to pursue her policy of constructive bi-lateralism as recommended above.

Bengal National Chamber of Commerce, Calcutta.

Question No. 1.—Do you consider that the economic background in the country has so altered since the Indian Fiscal Commission reported in 1922 that it necessitates a fundamental change in the approach to the problems with which the present Commisison is concerned?

Ans.—The present economic condition of the country is fundamentally different from that in the early twenties. Though India is still primarily an agricultural country, having regard to the number of people still dependent on agriculture, she has made remarkable industrial progress during the last three decades. At the time the Indian Fiscal Commission was first appointed, India was much less industrialised than at present and the balance was much more heavily in favour of agricultural economy. India could not have served as one of the most important centres of war production in South East Asia, had it not been for the stimulus given to the growth and progress of industries as a result of the implementation of the recommendations of the 1922 Commission. It was not merely the existence of a number of well-established industries that helped in war efforts; the availability of a large labour force, both skilled and unskilled was also a very great important factor in this respect. The part played by India in supplying war materials and maintaining civilian supplies, however unsatisfactorily was clearly unthinkable at the time the Old Fiscal Commission began its enquiry.

At the same time, the War also exposed the weakness of the industrial structure of the country. While a number of industries that had been given protection and some other allied industries have made remarkable progress since Fiscal Commission had reported, India still depends to a large extent on foreign countries for the supply not only of a large variety of finished goods but many basic raw materials and stores no less of machineries, and the danger of such dependence was most vividly brought to relief during the war years, on account of the stoppage of imports of these materials due to the conditions created by the War. The fact that India did play a vital part in the successful prosecution of the War was made possible only by partially starving the civilian population of their essential requirements. Some of the difficulties caused by the shortage of basic materials are even now being experienced, four years after the cessation of the War, because of world scarcities in respect of some of the raw materials and the inability of the manufacturing countries to supply the requisite number of plants and machineries.

The present Commission has to take note of this aspect of the problems and to suggest measure for the grant of fiscal protection to this latter group of industries in order to impart a balance to India's industrial economy.

A further change in India's economic conditions has been effected by the Partition of India and the inclusion within Pakistan of a substantial proportion

of jute and cotton growing areas as well as of markets for some of the finished goods of Indian industries.

A third change that has occurred is in respect of the trend in India's foreign trade and her continuing adverse balance of trade caused mostly by the heavy imports of foodgrains.

All these factors would stress the need for shaping India's industrial—and fiscal—policy in such a way as would make her as much independent as practicable of foreign sources of supply in respect of machineries, basic raw materials and finished goods. This is not to suggest the complete stoppage of all imports. India would have, even after a far greater degree of industrialisation, to import and export both raw materials and finished goods, but it is as well to take into account the possibility of a third World War cutting off foreign supplies both of war materials and civilian requirements as well as the traditional markets for Indian exports.

Question No. 2.—Will you list the principal changes in our agricultural situation in respect of (a) production, (b) consumption and (c) international trade in agricultural commodities?

Ans.—Broadly speaking, the production and consumption of cash crops like sugarcane, raw cotton etc. have received a very great stimulus as a result of the growth and development of the Sugar and Cotton Textile Industries. There has also been a considerable incentive for the improvement in the quality of sugarcane and for the cultivation of long-staple cotton. As a matter of fact, the growth and development of all such industries, as depend on agricultural raw materials, have given encouragement to the production and consumption of the latter.

The change in regard to the exports of oil seeds, particularly groundnut seeds, deserves special mention in this connection. During the last 6/7 years the Vanaspati industry in India has undergone a remarkable expansion. There are about 35 factories now in the Indian Dominion with an estimated capital investment of more than Rs. 20 crores. With a production capacity of about 2½ lakh tons per annum, the Vanaspati factories are expected to consume a very substantial proportion of the total output of groundnut crop in India which in the past used to be largely exported abroad. *Pari passu* the internal consumption of sesame seeds also is likely to increase substantially on account of the compulsory mixture of a certain proportion of sesame oil with groundnut oil for the manufacture of Vanaspati. The development of the Paint Industry has likewise led to a larger utilisation of linseed within the country.

As regards foodgrains, it would appear from the following figures that, far from there being any increase in supply, there has actually been a dimunition:

Average production for the ten year period ending 1930-31 (for undivided India) . . .	60 million tons.
Average production for the ten year period ending 1940-41 (for undivided India) . . .	57 million tons.
Average production for the five year period ending 1948-49 (for the Indian Union) . . .	48 million tons.

Compared to this the population figures are as follows :—

1931 (Undivided India)	34 crores.
1941 (Undivided India)	39 crores.
1949 (estimates of the Census Commission for Indian Union)	34 crores.

The total imports of foodgrains has, however, remained more or less constant in the pre-war period and at present, *viz.*, 1:5 million tons.

It will be noted that while there has been a reduction in the population on account of Partition, this has been more than offset by a reduction in the production of foodgrains and, if any thing, there has been a net fall in the supply of food available.

The conclusion seems to be irresistible that the consumption per head has decreased from the pre-war figures.

In respect of international trade, the pre-dominant position occupied by primary articles on the export side has been changed correspondingly with a similar position of manufactured goods on the import side. With the gradual industrialisation of the country, we are exporting lesser percentage of primary articles than before and are taking an increasing share of the world's export trade in manufactured goods. The decrease in the volume of exports of primary articles is explained by the fact that India now consumes larger proportion of her primary products than before, a development which is to be welcomed. The fact that since Partition, India has become a net importer of raw jute and raw cotton instead of being a net exporter should not vitiate the main argument regarding India's industrial development.

Question No. 3.—To what extent, if any, have these changes affected or are likely to affect in future, the pace and direction of our industrial progress?

Ans.—The question, posed here, has relevance mainly to the changes brought about by Partition, though the vast increase in the population as compared to the available resources of food is of equal pertinance. The shortage of foodgrains as also the dependence of India's Cotton Textile and Jute Mill Industries on imports of raw materials from foreign countries, including Pakistan, would, unless sought to be rectified, act as a drag on India's industrial progress. The huge imports of these articles both to relieve food shortage and to supply basic materials to two of India's principal industries would consume—and are consuming—a large slice of her foreign exchange resources. There is also no certainty of securing all these materials on terms that would be suitable to India. If, on the other hand, we could have been self-sufficient, either in whole or in part, in respect of these articles, we could have utilised our foreign exchange resources for importing capital goods and basic raw materials.

The Government of India have already declared their intention of stopping all imports of foodgrains after 1951. It appears that they are determined to adhere to this policy. This would, undoubtedly, release a large volume of exchange for other use. Presumably this objective is to be attained by increasing the acreage under foodgrains and possibly by increasing the yield. The question that has to be examined, in this connection, is whether it is possible to increase the acreage under both foodgrains and commercial crops like jute and cotton. For, unless it is possible to grow sufficient quantity of the last two crops, India would have to spend valuable exchange for their acquisition, apart from any physical obstacles that may be offered by Pakistan to their import into India. It is for this reason necessary to carefully consider whether, in the event of the difficulty in extending the cultivation of foodgrains simultaneously with that of other cash crops, preference should be given to the one or the other.

Question No. 4.—What are the basic improvements in our agriculture and mining that you would consider urgently necessary as a support for any policy of intensified industrialisation?

Ans.—Any policy of intensified industrialisation would depend very largely on a number of basic improvements in our agriculture and mining for several reasons. In the first place, despite all progress made in the matter of industrialisation, India is still primarily an agricultural country, and any surplus population that may be released from agricultural operations will provide the man power that will be necessary to run the industries. In the second place, as an agricultural country, India produces a large number of primary articles which serve—and can serve—in an increasing degree, as the raw materials of her industries. To the extent the variety, quantity and the quality of her agricultural products improve, the scope for industrialisation would increase correspondingly. In the third place, any improvement in the economic condition of the agriculturists would necessarily lead to an expansion of the home market for the products of the indigenous—and, also, foreign—industries. In the fourth place, as regards mining, the mineral resources of India, if properly tapped, would supply valuable raw materials for utilisation by industries, apart from the industrial operations involved in the working of the mines themselves.

Agriculture.—

The first objective of our agricultural policy should be to increase the total volume of agricultural production. For this, it is necessary to (a) extend the area of cultivation and (b) increase the per acre yield of the crops. Any extension of the area would necessarily mean reclamation of the non-cultivable land and making them fit for cultivation by the provision of water and other measures. As regards increase in the yield, the possibility of extensive cultivation by means of tractors and of intensive operation by the introduction of better types of seeds, manures etc., should be examined. The question as to how far irrigational facilities may be extended also deserves careful consideration. The multi-purpose irrigational schemes like the D.V.A. will indeed provide a great stimulus to agricultural production, but they will naturally take some time for fruition. It is, therefore, necessary to provide some short time irrigational facilities by means of wells etc.

Whatever might be our immediate policy in respect of the acreage to be allotted to the different crops having, regard to the existing deficiencies, our long term policy must aim at a substantial improvement in the yield of foodgrains per acre, in order not only to make us independent of foreign countries for the supply of an article of primary necessity but to release a larger area for the cultivation of the commercial crops on which the development of industries, dependent on agriculture, would depend. It is necessary to stress here that about 90 per cent. of our total acreage is under cultivation of food crops, and that unless this area is brought down to a lower figure, there is not much scope for increase in the area under cash crops. At the same time, in view of the importance of adequate food supply, the release of acreage under food crops may be possible, in the long run, only by increasing their yield.

The second objective is to improve the quality of our agricultural products particularly of the cash crops like raw jute, raw cotton, sugar cane, oil seeds etc. The development of industries would not be possible unless the primary products which they use are of the suitable quality.

The third objective would be to formulate a suitable crop plan. We should try as far as possible to be independent of foreign countries in respect of our main agricultural products whether foodgrains or cash crops. This question has both a long term and short term aspect and, if it is not possible immediately to grow all the crops to the extent required both for our maintenance and for our industries, it would be necessary to determine the particular crops in respect of which we must be self-sufficient and those in regard to which we may have to depend on foreign countries.

The fourth objective of our agricultural policy, which is a corrollary to the first, is to improve the economic condition of the cultivators and to free a larger proportion of the population of their dependence on land. A prosperous pesantry is the main prop on which the industrial structure of the country has to be built up. As for the dependence on land, the migratory character of colliery labour has ever been a very great handicap to the development of the industry, and while industrial employment must be made sufficiently attractive, agricultural operations should not depend on those workers who are engaged in the perennial industries.

Minerals—

India is without question rich in minerals, but all her resources have not yet been prospected far less tapped. Generally the easily accessible parts of deposits are only worked and the mines are abandoned when difficulties are encountered. Several important minerals have been and are even now worked mainly for exports. Often, mineral brokers in London and New York are able to make more profits than the primary producers in India, because of the exports of minerals in raw stage, as a result mostly of the lack of facilities for processing within the country. If minerals such as Manganese, Magnesium and Mica are processed into manufactured or semi-manufactured article before export, the country would greatly benefit by the technical experience it gains, the large labour force it employs and the larger profits it makes in the manufacture.

Minerals are unequally distributed in the country and have often to be moved long distance to reach the consumers. Mention may be made, by way of illustration, of the case of sand required for glass manufacture. We have yet very imperfect information about the deposits of sand of the requisite quality. It is not enough to know that good quality sand is available at a particular area, for if it is found in small pockets it is hardly of any advantage to large industrial consumption. The glass industry in India is already fairly well developed and the required information about its principal raw material is absolutely necessary for its consolidation and further improvement in future. It is, however, satisfactory to note that, as a result of the recommendations made by the Refractories Committee, the Government of India have recently decided to carry on intensive researches into sand and other minerals required by the Glass and Ceramic Industries

As inland waterways have not been well developed in this country and the cost of transport by railways is high, it is necessary to re-examine carefully the freights on internal transports and also to develop waterways.

It is also necessary to mention that information regarding mineral wealth in India is incomplete, only a few small areas in the country having been examined by Geologists in a detailed way. There are many regions, the detailed Geology of which is not known, while, in the case of small areas in Orissa and Assam, even general information is lacking. Intensive prospecting throughout the length and breadth of the country is urgently called for.

There are also a large number of minerals of which existence is known but which are not now utilised because of the absence of sufficient demand for their ensuring economic utilisation.

Question No. 5.—What are the main directions in which our industrial development has progressed since the Indian Fiscal Commission reported in 1922? Please give your appreciation of the same.

Ans.—It may be stated, as a general proposition, that the policy of granting proteteion to industries has justified itself by its results. The best test was provided by the last War when India had been cut off from the rest of the world and all imports of civilian requirements had been stopped. The fact that the civilian population was not completely starved of their requirements, in spite of restricted imports and the heavy call that was made on indigenous

supply by the need for the prosecution of the War was possible only because a large number of industries had been able to take advantage of the fiscal policy of the Government in the years preceding the war. The phenomenal progress made in particular, by the Cotton Textile, Steel, Sugar, Paper and Match Industries and those subsidiary to them, as also the simultaneous development of other allied branches of economic activity were possible only because of the protection granted by the Government to these industries.

At the same time, as already mentioned, there were certain lacunae in the structure of industrialisation. The development of industries has till now been possible in respect only of those which could satisfy the Government of India in respect of the difficult conditions laid down by the Fiscal Commission in the scheme of Discriminating Protection. (It may be mentioned, in this connection, that the Government have not accepted all the recommendations made by the Tariff Board for protection. In some cases, the recommendations have been rejected, in some other cases these have been largely varied. It is, however, only fair to state that most of the recommendations made by the different Boards have been accepted in their entirety by the Government.)

Most of the semi-finished raw materials, machine tools, machine parts and machineries, containers, mill stores, etc., have even now to be imported from foreign countries, and the difficulty in procuring them during the war was responsible for the inability of the Indian industries, both protected and otherwise, to take advantage of the temporary protection granted by the war conditions.

That given suitable assistance and encouragement, India can manufacture a large variety of goods, both basic and secondary, was proved beyond doubt by the quantity and the quality of many articles of strategic importance manufactured by her during the war. Unfortunately, all these war factories have been liquidated and, apart from the technical skill acquired by a large number of workmen, the opportunities created by the War may be said to have been largely wasted, except to the extent noted below.

In addition to the industries of purely war significance, a number of industries manufacturing basic raw materials had also been started during the war, and the development of some of them has been greatly facilitated by the assurance, subsequently implemented of the grant of protection on the return of normal conditions. The appointment of the Tariff Board in 1945, after a gap of five years, with more liberal terms of reference than recommended by the first Fiscal Commission and the acceptance of its recommendations by the Government of India in almost all cases has made it possible for many of them to continue operation even after the cessation of the War. As in the case of the pre-war Tariff Board, some of the recommendations of the interim Board also have not been accepted.

Question No. 6.—To what extent do you think our industrial development still falls short of our essential requirements? Would you list our main deficiencies under the following heads:

(a) Lines of manufacture which you consider essential;

(b) Volume of production;

(c) Overhead and operative costs;

(d) Quality of management;

(e) Supply of capital;

(f) Availability of raw material, fuel and power;

(g) Availability of high grade technical ability;

(h) Supply of skilled and unskilled labour;

(i) Efficiency of labour

Ans.—(a) As will be clear from the answers to the previous questions, industrial development in India has till now been of a haphazard character. Except in respect of Steel, no basic industry of major importance is still in existence, a small beginning having been only recently made in regard to heavy chemicals and machine manufacturing. One of the handicaps from which the existing industries suffered during the War was their inability to replace old and obsolescent machineries and machine parts. Even the Indian Railways could not replace overage locomotives, wagons and coaches by import from abroad. The steps taken by the Government of India to manufacture these within the country are, therefore, in the right direction. For similar reasons, we should have a number of machine manufacturing industries in order to cater to the requirements of the secondary industries. Much in the same line, the number of heavy chemical industries should be increased. The other lines of manufacture which should be encouraged are machine tools, electrical industries, automobiles, ship building, etc.

(b) There is a considerable scope for increase in the volume of production of almost all the industries. Leaving aside the present abnormal conditions of all round low level of production, India was not self-sufficient on the eve of the war in any one of her protected industries, except Sugar and Matches. In the non-protected group of industries, cement was the only outstanding example. India has a vast and growing population and, if the standard of living is increased, the effective demand for both indigenous and imported goods would increase considerably providing an extensive market for these goods.

(c) The operative cost of many of the industries in India has recently marked a very large increase. This has been due mainly to two factors: the high level of wages and of cost of raw materials. Even before the War, the cost of production of Indian industries was in many cases higher than that prevailing in other countries. In fact this was one of the grounds on which Indian industries had been basing their demands for tariff protection. The reasons for this disparity in the cost in the pre-war days was the comparatively greater efficiency of labour in foreign countries, and rationalisation through the introduction of automatic machines and labour saving devices was generally accepted as one of the methods by which Indian industries could lower their cost of production. It is doubtful how far it would be possible to introduce such schemes of rationalisation at the present moment in India in view of the discontent to which it is bound to give rise in labour circles.

The level of wages now prevailing in India is much higher than before the War. This is because the cost of living has also increased considerably since 1939. It may be pointed out, on the other hand, that partly, as a result of measures adopted by the Government and partly because of uncertain conditions through which industries are now passing, the dividends which shareholders receive have marked a corresponding decrease.

As regards raw materials, the cost of those which are available in India has risen proportionately to the general increase in price level, while the cost of imported raw materials has also risen because of either an absolutely world scarcity or a relative scarcity caused by heavy demand from a number of competing countries.

(d) The quality of management is generally high but, owing to the such late start of our industries and lack of experience in comparatively new industries, we would still require some technical assistance from foreign countries. At the same time, it must be admitted that, in respect particularly of those industries which have been fairly long established, Indian industrialists have attained

a degree of technical skill in management having had to pass through long years of trial and error. It may be stated, without any fear of contradiction that the managerial skill now available to Indian industries is much higher than any that may be provided by State management.

(e) Indian capital is proverbially shy. Even so, a large amount of capital has been invested in Indian industries. The source has been partly the Princely Order and big zamindārs, and perhaps to a larger extent, the middle class people. In the early days of India's industrialisation, however, the larger part of industrial capital was provided by the British Commercial interests in India but gradually a fairly large proportion of this capital has been acquired by Indians. It has been estimated that more than 50 per cent. of the capital invested in the Jute and Mining Industries, which are managed mostly by European Agency houses, is provided by Indians.

One of the reasons why capital was shy in the early days was because of the lack of confidence in the management, a feeling which was not unusual because of the lack of experience of Indians in industrial ventures and a number of failures in earlier days which, in its turn, was due to the inexperienced management as much as unequal, and, even sometimes, unfair competition from abroad. To a large extent this deficiency was removed in later days by the high skill of management provided by the Indian Managing Agency firms, and industrial enterprises sponsored by these firms have not generally lacked finance. This facility was not, however, available to the new entrants and one of the directions in which improvement was sought for was the establishment of industrial banks in the different provincial headquarters. Though, however, this suggestion was endorsed by the Central Banking Enquiry Committee as early as 1931, the only positive action so far taken in this respect has been the establishment of the Industrial Finance Corporation as late as in 1947. This is, however, a central organisation having its headquarters in New Delhi with provincial agency offices, but the lack of industrial capital would not be adequately removed unless similar institutions sponsored by Provincial Governments are set up in the provincial headquarters, particularly in industrial centres. It may be pointed out, in this connection, that the terms of the Industrial Finance Corporation of India are yet very stringent and should be relaxed to confer the intended benefit on any appreciable scale.

Recently, however, on account of the uncertain conditions prevailing in the Stock Exchanges and lack of confidence of the business community in the financial policy of the Government, capital has become much more shy than ever before. To some extent the dislocation caused by Partition has also helped in the process.

The Indian commercial community, nevertheless, is not very enthusiastic about the invitation accorded by the Government of India to foreign capital to participate in India's industrial management. The fact that all the industries established in India will automatically qualify for any tariff protection that the Government may grant to the industries as a result of the recommendations of the Tariff Board and also of the present Fiscal Commission considerably detracts from the inherent merits of foreign investment in Indian industries. It is, however, realised that the Government, having once declared their policy, may not find it possible to make any substantial changes therein. It is, therefore, suggested that one of the conditions on which foreign capital should be invited to participate in Indian industrial ventures should be to agree to take less than 50 per cent share in any particular company and also to provide technical skill in the early stages and train up Indians in the line.

(f) India has vast natural resources, particularly of the primary and mineral group. Some of these resources are still potential and have to be tapped. Reference to these raw materials has been made in answer to previous questions

which have also shown how far deficient India is in respect of semi-finished raw materials. Some progress has recently been made in this direction, but much more has yet to be done.

As for fuel, coal and wood provide ample facilities for industrial development, the only limiting factor being the ability of the transport system to carry coal from the pitheads to the factory sites. Anxiety has, however, been expressed by those, who can speak with authority on the subject, about the resources of high grade metallurgical coal required by the Steel Industry and the need for conservation of those resources has to be stressed again.

As regards power, the supply position at present cannot be said to be very satisfactory, but the prospect is certainly very bright, what with the development of the vast water resources of the country and what with the utilisation of low grade coal, the supply of which is plentiful.

(g) There has been considerable progress in recent times in respect of high grade technical ability in India. The skill with which India could supply war materials has demonstrated that, given sufficient opportunity, Indians may as well compete with foreigners in respect of technical skill. At the same time it must be admitted that the number of such qualified Indian is not very large nor are the lines in which they specialise varied. For some time yet to come, the Indian industries will have to depend on foreign countries for technical skill and, as already mentioned, participation of foreign capital in Indian industries should be permitted only on condition of affording suitable opportunity to qualified Indians to learn the technique of the trade.

(h) Indian labour has also demonstrated its ability to pick up skill in highly specialised industries. For this, however, larger opportunities no less than a preliminary educational grounding is required. The system of education in the country may perhaps have to be altered for the purpose.

As regards the supply of unskilled labour, no complaint has so for been made by the Indian industries but, in certain lines, particularly in the Coalfields, labour has not yet been able to disaffiliate completely from the land. The migratory character of coalfields labour has already been referred to an answer to a previous question. India has a vast and a growing population and, with the gradual improvement in agricultural operations, should be able to release a large number of workers for wholetime employment in industries. There is, however, an actual shortage of skilled labour for machine tool and other industries requiring precision work. This has been presenting a problem for expansion of certain industries of this type.

(i) Indian labour is much less efficient than its counterpart elsewhere. The inefficiency is due primarily to climatic conditions and to the absence of a permanent labour force relying exclusively on industries. As already mentioned, a sound preliminary educational grounding and also improvement in conditions of health may be useful in removing the handicap.

It should also be mentioned, in this connection, that recently the output of labour has considerably decreased. It is not so much due to the deterioration in technical skill as a positive change in the outlook of labour. This has created a serious problem to the Industries and has to be very seriously tackled.

GENERAL OBSERVATIONS.

The heads of 'deficiencies' listed under question 6 do not exhaust all the grounds of our backwardness. There are certain industries like the development of coal by-products and allied dyes and drugs for which any single factor of deficiency or a combination of them cannot be held responsible. Such industries which are obviously 'essential' for our industrial development can

be established only under a comprehensive plan sponsored by Government of India on account of the various factors involved. Only if such a plan is initiated with assured State support can private enterprise be enthused to take them up. The manufacture of industrial alcohol also belongs to this category of industry.

Question No. 14.—The Fiscal Commission appointed by the Government of India in 1921 recommended "that discrimination should be exercised in the selection of industries for protection, and in the degree of protection afforded so as to make the inevitable burden on the community as light as is consistent with the due development of industries". On the strength of this basic principle the Commission decided that an industry seeking protection or assistance should satisfy the three conditions enumerated in paragraph 1 of the note. Besides tariff protection the Commission recommended also certain non-fiscal measures. Are you satisfied that the policy recommended by the Commission was fully implemented between 1923—1939? If not, please enumerate the main deviations from the Policy.

Ans.—It may be generally stated that the Tariff Boards which were appointed as a result of the recommendations of the Fiscal Commission had confirmed to the three conditions suggested by the Commission. As, however, the Boards were all *ad hoc*, it was not possible to have the same continuity of policy as could be expected of a permanent Tariff Board. There were, therefore, some deviations, mostly of minor character, in respect of the emphasis which each Board laid on the conditions attached by the Commission to the grant of protection.

It may also be pointed out, in this connection, that in spite of the dependence of the Glass Industry on foreign countries for supply of Soda Ash, the Tariff Board had actually recommended the grant of protection to the Industry, but the recommendations were not accepted by the Government.

Question No. 16.—Do you agree with the specific conditions laid down by the Commission that normally protection should be accorded to an industry only if the conditions referred to in Q. 14 are satisfied?

Ans.—The Committee agree that protection cannot be granted indiscriminately to all industries. Looking at the problem from that point of view, there is nothing wrong in a policy of "Discriminate Protection" as such, but this phrase has acquired considerable notoriety in view of the conditions which were attached to the recommendations made by the old Fiscal Commission. As a matter of fact, it was in view of the very strict interpretation of these conditions, particularly the one relating to the possession of "natural advantages", that many of the industries which had asked for protection were refused any tariff assistance either by the Tariff Board or by the Government. The danger of such a policy was fully revealed during the war when India was faced with tremendous problem of both supplying the civilian market and of catering to the war requirements.

It was not evidently realised that the availability of some of the semi-finished raw materials within the country cannot be ensured without a simultaneous creation of demand for the same. And, if protection to any industry is denied simply because the semi-finished raw materials are not available in India, it would not be reasonable to expect the manufacture of these raw materials in the country in the absence of a steady demand from the consuming industries.

The same observations may also be made in respect of the availability of cheap power, supply of labour and the existence of a large home market. As in the case of raw materials, the provision of cheap power is dependent on the existence of a large volume of demand from the consuming industries. As for labour, while India has a vast potential source of supply, workers have to be

trained in industries and unless industries are started, no scope for training would offer. The home market also has to be created.

It was evidently in appreciation of this defect in the conditions laid down by the Fiscal Commission that the Government of India widened the terms of reference of the post-war Tariff Board and asked it not to put the same emphasis on this question of availability of raw materials as had been suggested by the Fiscal Commission.

Question No. 17.—Do you consider that the "supplementary measures" for the protection of, and assistance to, industries as recommended by the Commission in Chapter VIII of their Report were adequate and well conceived?

Ans.—Tariff protection is only one of the methods by which industrial development may be made possible and unless this is supplemented by other measures, the cost of protection may ultimately prove to be a sheer waste. Particularly in respect of industrially backward countries like India, tariff protection is only another name of a sheltered market in which the local industries are afforded an opportunity of making up their deficiencies in respect of technical efficiency, capital formation, an assured market, etc. Viewed in this line, the "supplementary measures" recommended by the Commission in Chapter 8 of their Report were undoubtedly well-conceived but they were not certainly adequate. To the measures suggested by the Commission might well be added those relating to the provision of finance to which a reference has been made in answer to Question No. 6, Stores Purchase Policy of the Government and the need for Industrial and Scientific research.

Question No. 18.—In a Resolution passed in the Central Legislative Assembly on the 16th February 1923, the principle of discriminating protection was accepted as the basis of Government policy subject to the following general qualifications:—

(a) that the principle should be applied with due regard to the well being of the community and to the safeguards mentioned in Question 14.

(b) that in the application of this principle, regard must be had to the financial needs of the country, and to the then dependence of the Government of India on import, export and excise duties for a large part of its revenue.

To what extent, if any, do you think these qualifications affected the working of the policy of discriminating protection between the years 1923 and 1939? Please give your comments, if possible, separately for the following sub-periods:—

(i) 1923-29

(ii) 1930-34

(iii) 1935-39

Ans.—It must be admitted that the Government of India had a very keen eye on the burden of a protective policy on the community and that they applied very strictly the safeguards suggested by the Fiscal Commission. The recommendations of the Tariff Board for the grant of protection to a number of industries were either not accepted by the Government or were modified on the ground, *inter alia* of the particular industry either not completely satisfying the condition laid down by the Fiscal Commission or the protection not being considered necessary in the interest of the community. On the other hand the experience has shown that the policy of protection followed by the Government has not imposed any permanent burden on the community and that their well-being has been fully ensured.

The immediate effect of tariff protection to any industry is undoubtedly a rise in the price of the goods manufactured by it. At the same time, it can be demonstrated that while the prices of the goods manufactured by the protected industries have gradually fallen, the development of the industries fostered by protection has conferred other valuable advantages to the community by providing employment in diverse fields and also helping in the development of other subsidiary industries. In the case of the Steel Industry, for example, we have in India now three steel factories providing employment and other amenities to a large number of persons not only in the Steel factories themselves but also in the Coal fields, iron ores, and subsidiary industries like engineering, enamelling and many others. The development of Railways has also been possible because of the development of the steel industry in India. As regards the Sugar industry, apart from the employment which it gives to the large number in the factories themselves, the vast army of growers engaged in the cultivation of sugarcane owe their prosperity to the development of the industry. The Match and the Paper Industries have similarly helped in the development of the timber resources of the country. Banking and Insurance Companies have also shared in the general improvement of the economic conditions following tariff protection.

Leaving aside the present high level of prices caused by other factors, it cannot be said that protection to these industries has caused a rise in prices. As a matter of fact, a study of price level of all these commodities upto the time of the war would reveal that prices had actually been going down to a very low level primarily because of the large increase in the volume of production and a simultaneous increase in the efficiency.

Question No. 19.—The changes set out in paragraph 4 of the note were made in the principle of discriminating protection in 1945 when the interim Tariff Board was established. What are your views on these deviations from the original policy as laid down in the Indian Fiscal Commission's Report?

Ans.—As already suggested, the Government of India were well-advised in making a deviation in 1945 in the terms of reference to the interim Tariff Board from those recommended by the Fiscal Commission in 1922. Whereas the Fiscal Commission had insisted that an industry "must be one possessing natural advantages such as abundant supply of labour and a large home market", the new terms of reference only asked the Tariff Board to have regard to "the natural and economic advantages enjoyed by the industry" without specifying what these natural and economic advantages are. To the extent the Tariff Board could ignore the dependence of an Industry on foreign sources of supply for raw materials and other factors of natural advantages, the new terms of reference were certainly more liberal than the old ones.

Question No. 20.—Are you satisfied that this policy of 1945 is being fully implemented? If not, please indicate where, in your opinion the defects in implementation lie.

Ans.—The most important point which requires to be stressed in answering this question is that the Tariff Board which has been appointed on an interim basis is so constituted as to be unable to give adequate and prompt attention to all the industries asking for protection. The present procedure in regard to the application for protection by an industry, subsequent enquiry by the Board and the final decision of the Government is also very much defective. Reference may, in this connection, be made to paragraph 12 of the "Review of the Work of the Indian Tariff Board since its constitution in November 1945" recently published by the Government. A perusal of this Report will show that the defect in the machinery of post-war protection may be traced back to the Ministry of Commerce itself where a comparatively long time is taken before a decision is made to refer the case of a particular

industry to the Tariff Board. The latter on its part, because perhaps of the heavy list of cases pending, takes its own time to come to a decision. The third stage when the Report of the Board goes back to the Ministry of Commerce is also much too long, as, by the time the final decision of the Government regarding the grant of protection to an industry is announced, the industry has to face considerable difficulties on account of unequal competition from abroad. While, in some cases, the Government's decision was announced within a comparatively short time, an interval of between six to eight months has been a very common experience, there being also instances of more than a year elapsing between the date of submission of the Report by the Tariff Board and that of the Government's orders thereon.

This time lag between the first application by an industry for protection and the final decision of the Government needs special stressing because it has often happened that a particular industry has been handicapped on account of the liberal import policy of the Government. On being asked to stop the imports of the particular commodities as a measure of protection to the Industry concerned, the Government have invariably asked the industry to apply for Tariff protection instead of demanding assistance through import control. Without raising any question as to the wisdom of this policy, it is possible at the same time to criticise the Government on account of the dilatoriness of the method of enquiry into the cases of the industry for protection either by means of protective duties or import control.

It may also be stated that the recommendations of the Tariff Board have in some cases been modified by the Government and that the measure of protection recommended by the Tariff Board have not in all cases been accepted.

Question No. 23.—

(a) Please indicate the significant features, if any, in the structure and organisation of the protected and assisted industries with respect to—

(i) the size of the units;

(ii) their location;

(iii) the development of combinations, horizontal or vertical;

(iv) the developments of ancillary industries; and

(v) any other aspect that you may consider it necessary to mention.

(b) Do you think that the form or manner in which protection or assistance has been given to these industries has had anything to do with these features? Which of these features are in the interests of our economy and which are undesirable?

Question No. 24.—If you consider that the undesirable features mentioned, if any, were due to any defects or deficiencies in the control exercised by Government over the protected or assisted industries, please point out such defects or deficiencies?

Ans.—In any problem of industrialisation the question of location becomes very important in order to introduce a balancing factor in the industrial structure. It is for this reason that the Government of India had, in their industrial policy formulated in 1945 stressed the need for the dispersal of the industries to the various centres instead of concentrating in particular areas. In pursuance of this policy, certain quotas were fixed for the new cotton mills, under the post-war development schemes, but unfortunately, so far as is known, not much advantage could be taken of this scheme partly because of the difficulty

in procuring capital goods and partly because of the present uncertain conditions of the money market.

As regards the development of combinations, horizontal or vertical, there has not been any such development except in respect of selling the products of the protected industries. Two such instances are provided by the Indian Sugar Syndicate, in the case of Sugar industry, and Tata-Scob Selling organisation in the case of the Steel industry. This development should not be considered to be in any way undesirable, as the existence of such organisations have saved both the industries from uneconomic competition among the different units.

A number of ancillary industry has developed as a result of the development of the protected industries. The most important instance is provided by the Engineering Industry which has been able to make considerable progress on account of steady supplies by the Steel Industry, which has also helped in the development of many other industries such as enamel wiring, wire nails, tin plate, etc. In the same manner, the Sugar and the Cotton Textile Industries have helped in the development of other subsidiary industries.

Question No. 26.— Has the protection or assistance received by our industries induced any substantial increase in the supply of—

(a) technical personnel required by the industries;

(b) skilled labour;

(c) semi-skilled labour;

(d) a stabilized industrial labour force?

Ans.—The protection and assistance received by the industries undoubtedly induced a substantial increase in the supply of technical personnel, skilled and semi-skilled labour. The number of institutions, imparting technical education, has recently increased very much and has been producing a large number of persons trained in the various technique of the industry. Some of the factories also have provision for training qualified persons in the technique of manufacture and, as a matter of fact, the demand for technical personnel has increased in the country on account of the need felt by the industries to increase their products and improve their quality of outturn. For the same reason labour is also being given opportunity for acquiring skill.

Question No. 27.—To what extent, if any, has industrial research been initiated and fostered by the protected and assisted industries?

Ans.—A number of protected and assisted industries have arrangements for technical research. Some of them also give encouragement in the form of scholarships to qualified persons. The research laboratories, maintained by some of the factories, can well compare with the best in other countries. Special mention may be made of the Steel Industry.

Question No. 28.—Do you consider that the revenue tariffs imposed in the past have had any appreciable effect on the growth and development of our industries and on the course of our export and import trade. If so, would you illustrate your finding with some examples drawn from the trade or industry of which you have knowledge or experience?

Ans.—Though the object of revenue tariffs is only to enable the Government to earn more customs revenue, they have generally some beneficial effects on the respective industries. While, however, protective duties are imposed with a view to assist the industries and their level is determined by the measure of assistance required by the industries, revenue tariffs do not take into account this requirement of the industries and their level is determined by the financial exigencies of the Government from time to time.

In some cases, however, revenue tariffs have imposed definite burdens on the industries, as, for example, in respect of import duties on raw materials and machineries. The Government have, in such cases, pleaded their unfavourable financial position as an argument in favour of such impositions, but the fact remains that the duties have adversely affected the development of industries. In the case protected industries such imposition of import duties on raw materials have the effect of reducing the measure of assistance previously granted on the recommendation of the Tariff Board.

It must at the same time, be admitted, in fairness to the Government that while refusing to grant protection to the Glass Industry, they afforded some little relief to the industry in the shape of a draw back on the import duty on Soda Ash. This method of granting relief to an industry is not, however, quite satisfactory, and it should be the policy of the Government to remove straight away all import duties on raw materials used by any indigenous industry instead of allowing a draw back.

Question No. 30.—Do you think that the development of any of the protected industries was hampered by the policies pursued or the measures adopted by Government with regard to matters other than protection? Please give examples.

Ans.—The most important measures which were taken by the Government to defeat the object of protection were in respect of (a) the imposition of an import duty on raw cotton and also on other raw materials, and (b) fixing a minimum price in the case of sugarcane. It is not necessary here to examine whether, for any other consideration, such measures were necessary or not, but it is necessary to stress that when protection was first granted, neither the Tariff Board nor the Government could foresee the imposition of these obstacles in the development of the particular industries. It was, therefore, only fair that the Government should have compensated the industry concerned for the loss which they entailed on them by these measures.

Question No. 31.—What in your assessment is the relative importance of the main changes in the pattern of our foreign trade which have taken place in the periods—

(a) 1939-45;

(b) 1946-49?

Ans.—(a) The pattern of trade during 1939-45 was determined mainly by—

(i) the needs of the war,

(ii) the shipping position, and

(iii) exchange restrictions.

The chanelling of production in all Allied countries along certain narrow routes and the diversion of the trade to particular directions were resorted to primarily as a measure of War effort. A large number of the most important countries with which India had the closest commercial relations before the War were cut off the schedule on account of their being included in the category of Enemy countries. As, however, the three principal Enemy countries entered the War on different dates, the suspension of trade with them did not take place simultaneously. For instance, India continued to trade with Japan for well over two years after the outbreak of War in Europe.

Trade with the Allied countries had also to be brought down to the minimum due to the shipping difficulties. Certain routes were closed to trade quite early, while others remained open for a comparatively long time. The re-opening of the routes was also dependent on the improvement in the War situation, and the Mediterranean route became easier to navigate much earlier than the Pacific.

Even in regard to such trade as was possible, the need for conserving foreign resources put a severe limitation on the imports of unessential commodities.

In consequence of the combined operation of these forces, imports were drastically reduced, and India became, almost overnight, the supply centre for the Eastern theatres of the War. The production of War materials was given the top priority and, as a result, their export to the Allied countries, particularly the U.K. was also facilitated. War orders came mainly from the U.K. and other Commonwealth countries. and the U.S.A., but the U.K. was by far the largest purchaser of goods from India. Further, due to the pre-occupation of the U.K. with War efforts, the countries in the Far and the Middle East which had been, till the War, importing large varieties of goods from the U.K. provided a useful market for Indian finished goods.

As payment for the goods supplied was virtually blocked during the War, India emerged a creditor country in relation to Britain, even after repaying her outstanding Sterling loans, and her Dollar earnings, although much smaller than the Sterling Balances, accumulated in the Empire Dollar Pool.

Under the stimulus of import restrictions, high prices, needs of the War and of Governmental assurances, many new industries were started in the country. Import of consumer goods and many necessary capital goods had practically ceased and most of the principal industries in consequence had to struggle for achievement of national self-sufficiency with worn out plants and equipments for which replacement were not available.

(b) The following are the main features of our foreign trade during 1946-49:

(i) A chronic and heavy adverse balance of trade on the whole, and, in particular, with the U.S.A., Canada, Belgium, Bizonia, and Latin American countries;

(ii) Quantitative increase both of imports and exports. Chief items of imports are capital goods, food, essential raw materials, chemicals, drugs, etc. while the chief items of exports are jute goods, tea, hides and skins, cotton yarn and manufactures etc.

(iii) As a result of partition, the sources of many raw materials e.g., raw cotton and jute have been cut off. Thus India, which was the largest exporter of raw jute and a net exporter of raw cotton, had become the largest importer of raw jute and a principal importer of raw cotton.

(iv) Acute shortage of food has forced India to import food on a scale which mostly because of the very high prices that have to be paid therefor, does not leave her sufficient foreign exchange to purchase capital goods necessary for the execution of her ambitious development projects.

(v) The import policy as well as the export policy of the country during this period has been guided by the balance of payments position and has been frequently changed. The world-wide scarcity of Dollar and the currencies of some other countries, has made it increasingly difficult for India to import goods from these countries and the resistance which exports to these countries have encountered has made the position extremely difficult for India. The Devaluation of the Rupee is likely to close the U.S. market to Indian buyers altogether and to facilitate her exports thereto.

(vi) A number of bilateral trade agreements with various countries e.g., Poland, Czechoslovakia, Yugoslavia has been entered into.

(vii) The geographical distribution of our trade has rapidly returned to the pre-war pattern in one important respect, namely, that the Commonwealth

countries have rapidly resumed their pre-war position of importance as customers for our goods and sources of our imports. The U.K. retrieved its position as the largest buyer of our goods and as also the largest source of our supplies.

(viii) India has virtually exhausted the large volume of Sterling Balances accumulated during the War years.

Question No. 32.—Would you briefly analyse the effect of the (a) legislative and (b) administrative measures relating to the control and regulation of our foreign trade which Government have had to adopt during these periods on—

(a) our import and export trade; and

(b) the growth and development of our industries?

Question No. 33.—To what extent have these changes affected the fundamental promises on which the recommendations of the Indian Fiscal Commission 1921-22 were based? Please illustrate your reply with examples drawn from the trade or industries with which you may be concerned or about which you may possess adequate knowledge.

Ans.—As already explained, the measures taken up by the Government during the war for regulating our Foreign Trade, had changed the direction of our foreign trade as well as its character. While, trade with the enemy countries had to be suspended, India was enabled, within the limitations of the war conditions, to create markets for her goods in some other countries, with which she had no or little trade relation in the past. The character of trade also undersent substantial changes, as, instead of being largely an importer of manufactured goods and an exporter of primary raw materials, India could export a large number of varieties of finished goods to the foreign countries, mostly for the purpose of war, for which necessary semi-finished materials were procured from the foreign countries. in some cases with Governmental assistance.

During this period Indian industries received some indirect protection on account of the restrictions on and stoppage of imports from foreign countries. The Government also extended patronage to industries engaged in the production of war materials. As soon as, however, the war situation improved, the Government began to encourage imports of consumer goods from abroad, for which there was indeed a large pent-up demand within the country. Payments for these imports were made through the accumulated Sterling Balance, as Indian exports were not sufficient for the purpose. This policy was criticised by the Indian Commercial Community for two reasons: In the first place, it helped in the gradual depletion of the accumulated Sterling resources which, it was earnestly hoped, would be utilised for the imports of the capital goods of which the country was in sole need. In the second place, the imports of consumers goods put a serious strain on the indigenous industries, most of which were included in the category of "unprotected" industries and which had to face unequal competition from abroad, as a result of the flow of imports which began as a result of the new policy of the Government. It was, of course, contended on behalf of the Government that imports were necessary to check inflationary tendency which had began to manifest themselves in the country during and after the war. The validity of this contention was not fully admitted by the commercial interests, in whose opinion a compromise could easily be effected between the needs of the industries and those of the consumers by a quantitative restriction on the imports of consumer goods from abroad having regard to the productive capacity of the indigenous industries.

The Import Advisory Council, set up by the Government in 1948, has not, however been of much utility in advising the Government about the regulation of imports. For, as far as has been ascertained, the Council is almost like a debating society, to which the decision of the Government, after they are taken, are placed, more or less, for information and not so much for approval.

Question No. 34.—In the light of your analysis and appreciation what is the relative importance you would attach under present day conditions to Governmental measures for the promotion of our trade and industry which may be broadly classified under the following heads:

(a) Fiscal measures;

(b) Non-fiscal measures?

Ans.—It will be clear from the answers to the previous questions that both fiscal and non-fiscal measures are equally important in any scheme of industrial development of a country. Tariff protection, as part of fiscal policy, is designed to give industries some breathing time in order to develop. unaffected by competition from abroad. But this development cannot clearly be possible unless other supplementary measures are taken in the form of the removal of difficulties in respect of supply of raw materials, formulation of a correct railway rates policy, improvement in the technique of manufacture and the quality of raw materials, training of workers, etc. There are some industries which may not require any protective tariff for their development and, in their case, the importance of non-fiscal measures can hardly be over-emphasised.

In regard to particular industries of basic nature, such as those engaged in the production of raw materials, the creation of a demand within the country for their products is of no less importance than protective measures. Such basic industries may themselves require, in their initial stages, some protective measures, but what is more important to them is that they can be encouraged to start production only if the respective consuming industries are also simultaneously developed either by protection or otherwise.

Question No. 35.—Would you indicate the extent to which an appropriate tariff policy can further our foreign trade and assist in the development of our industries?

Ans.—An appropriate Tariff Policy can further our foreign trade in many ways. While the object of Tariff Protection is to protect home industries against imports of competitive goods from other countries and while, therefore, the immediate effect of tariff protection is curtailment of imports, the development of industries which such a policy encourages would ultimately lead to imports of many other articles from foreign countries which would not have ordinarily been imported. Mention may, for instance, be made of the raw materials and machinery which have to be imported in order to develop the particular industries protected. Besides, restrictions of imports by suitable duties would release additional foreign exchange for the purchase of essential capital goods necessary for the development of industries which may or may not be included in the category of "Protected Industries", as well as such other articles belonging to the luxury goods for which demand will be created in the country, as a result of increased prosperity brought about by the protective policy.

Protection given to large industries also often helps in the development of other industries which would be started for taking advantage of the supply of basic raw materials produced by the protected industries.

Again, the lifting of import duty from essential raw materials from abroad may also assist the development of home industries. A correct tariff policy

should also take into account the effects which purely revenue duties have on the development of industries. In view of the fact that customs now a days form only 32 per cent. of India's total Revenue, the importance which the first Fiscal Commission attached to these is no longer of very great significance. The Government can now afford to lose some customs revenue if, thereby, it is possible to give encouragement to the development of industries. This is particularly true of the import duties on raw materials and machineries. On the other hand, even in respect of the "unprotected" industries, the Government may perhaps consider the feasibility of a slight increase in the import duties, without of course jeopardising the yield from such duties and without imposing an unnecessary burden on the consumers.

Question No. 36.—What, in your judgement, should be the objectives of tariff policy in the short period?

Ans.—There is no difference in the objective of the tariff policy either in the short period or in the long period. The main objective of the tariff policy should be to develop industries within the country and if any insistence is made on the short period aspect of the problem, emphasis should be given to the question of achieving the object of protection in as short a period as possible.

Question No. 37.—The minority report of the Indian Fiscal Commission 1921-22 expressed the view that there should be an unqualified pronouncement that the fiscal policy best suited for India is protection. Do you agree with this?

Question No. 38.—If so, what principles and conditions would you lay down for regulating the grant of protection or assistance?

Ans.—In so far as those industries which have not yet been fully developed and have to face unequal and, sometimes, unfair competition from foreign countries, the fiscal policy best suited for India is undoubtedly protection.

The main argument against protection is the theory of comparative costs based on international division of labour. The theory does not, however, stops to consider whether a particular country enjoys true, permanent and definite advantage which is not the result of mere coincidence of tradition or historical accident. No industrially advanced country of Europe, barring England, however, could have developed its industries, if it were not for the systematic policy of protection pursued by most of them. Technical efficiency, superior quality and cost advantage are some of the gifts of an earlier start. When, therefore, a home industry cannot compete with its foreign counterpart solely or chiefly because the former was started later, there is every chance that it would, if sheltered against external competition for a reasonable time, grow to maturity and eventually be able to catch up with foreign competitors.

That Protection has helped Indian Industries considerably is amply testified to by our experience of the last twenty years. Detailed reference to this aspect has already been made in answers to previous questions.

The conditions which were laid down by the Fiscal Commission for the grant of protection were, as indicated in answers to previous questions, not at all suitable for the purpose. Only a few industries could claim to satisfy all these conditions and the cases of all of them were not ultimately found acceptable either by the Tariff Board or by the Government. The main condition which the Government should satisfy themselves about is whether it is necessary to develop a particular industry in the interest of the country. If the industry possesses natural advantages, such as those referred to by the Fiscal Commission, there can be no question of granting protection to it. For, there are a number of primary raw materials and minerals in the country which are now

exported to foreign countries on account of the lack of facilities within the country for processing them. In some cases, the finished products produced out of these raw materials are imported into the country, thus showing that there is sufficient internal demand for them. In other cases, the finished products, processed out of raw materials, are not re-imported into the country but are either consumed within the country of manufacture or exported to other countries. In any of these cases the question of utilising the raw materials within India is of paramount importance and it should be the policy of the Government to give all possible encouragement to such industries as may be started for utilising these raw materials either for catering to the home market or for export to foreign countries.

But even in respect of these industries which have no such "natural advantages" in the form of raw materials, the Government should carefully consider the question of the need for their development having regard to the other advantages of such a policy. It may be mentioned, in this connection, that the Cotton Textile and the Jute Industries of the U.K. utilise raw materials imported from abroad and export the finished goods to other countries. The primary consideration in developing such industries in India would be to provide a scope for investment of capital as well as employment to a large number of workers, both skilled and unskilled, apart from the beneficial effects of the development of such industries on the general economic conditions of the country, and the amount of net foreign exchange earned as a result either of stoppage of imports of the particular commodities or of the promotion of their exports.

It would thus appear that neither the availability of raw materials nor the existence of a large home market is an essential condition for the grant of protection.

It is also necessary to mention here that Tariff Protection to industries producing basic raw materials entails necessarily an increase in the price of such materials and may, for this reason, increase the cost of production of the secondary industries. This is, however, no argument for refusing protection to the basic industries, for, in such an eventuality, the measure of assistance to the consuming industries has to be increased correspondingly.

Question No. 39.—Would you, in the application of the formula or principles, if any, or in the administration of the policy in general, like special consideration or priority to be given to any particular classes of industry? If so, please name the classes.

Ans.—Generally speaking priority must be given to basic industries including those which are necessary for the defence of the country and also those others producing raw materials consumed by other secondary industries, already established or likely to be established in near future. In respect of such industries the question of the availability of primary or semi-finished raw materials within the country should not have any consideration at all. The second in order of priority, should be those industries which possess natural advantages such as the existence of raw materials within the country. In the case of such industries, the other "natural advantages" such as availability of cheap power is not of any significance, as power would—or should—be made available with the starting of industries having an assured existence. Those industries having an extensive market in the country but depending on foreign countries for one or more of their raw materials should have the same priority as the last named industries. The development of export industries, such as those which would depend on foreign countries both for the supply of raw materials and for the disposal of the goods, should come last in the order.

Question No. 40.—Do you agree with the view that the grant of protection should not be confined to infant industries, but should be considered, if necessary even before an industry is established or when proposals for its establishment are under consideration?

Ans.—Yes. Reference to this matter has been made in reply to a previous question. As the aim of protection is to develop a home industry in the quickest possible time, it is only to be expected that the grant of protection to an industry, even before it is established or when proposals for its establishment are under consideration, will give it a favourable start and ensure its early development. Such grant will, in addition, enable the industry to attract investors. Protection is all the more necessary in the case of such industries which, being of basic importance, requires high degree of technical skill, temporarily to be imported from foreign countries at a high cost, and for which in the absence of an assurance of tariff assistance, the required venture capital will not be forthcoming.

Question No. 41.—(a) Please indicate your view on the various alternative methods of protection, *e.g.*,

(i) protective import duty;

(ii) bounty or subsidy;

(iii) system of pool prices, *e.g.*, the aluminium price pool which was in force till recently;

(iv) quantitative restriction of imports based on a guaranteed market for at least a percentage of domestic production (when such quantitative restrictions can be imposed without conflict with pre-existing agreements or commitments)?

(b) Which of these methods should be the normal method?

(c) Would you like the appropriate method to be determined in each case on its merits? If so, what are the conditions you would like to bear in mind in selecting the method of protection?

Ans.—(a) (i) *Protective import Duty.*—This is the normal method of protection and is reported to when the home industry requires for its development respite from foreign competition. The amount of the duty is generally determined with a view to equalise the local cost of production with the imported price, and the burden naturally falls upon the consumer of the goods of the protected industry without at the same time much effect on the general revenue position of the Government.

(ii) *Bounty or subsidy*—should be granted when the price difference between the home product and the foreign product is no large that exclusive reliance on protective import duty for bridging the gap would impose great hardships on the consumers. Bounty or subsidy should supplement import duties.

The advantage of a scheme of bounty is that the consumer of the protected industry does not have to pay the increased price, the burden being borne by the general tax-payer in the form of grants from the Revenue. Generally, it may be resorted to only in cases where the volume of production is very low and is confined to only a few organised manufacturing units. Reference may, in this connection, be made to the controversy which arose over the question of grant of protection to the Salt Industry in 1931. As the Salt of the particular variety which was sought to be protected was to be consumed only by Bengal and some of the other Eastern provinces and the production was confined only in the Bombay Presidency, a demand was made that protection should take

the form of Bounty. Ultimately, however, a compromise was arrived at, according to which a certain portion of the net proceeds of the tax was to be handed over to the consuming provinces for developing the Salt Industry.

Bounty is also more suitable in the case of protection to the industries manufacturing raw materials, as such a method would keep the prices of these materials within reasonable bounds and would not lead to an increase in the cost of production of the consuming industries.

(iii) *Pool Prices*—a system of pool prices is effective only in the case of particular industries which have only two or three big units of production and over the output and distribution of which the Government can exercise effective control. This system has the advantage of lowering the burden on consumers in so far as the measure of protection is not equal to the difference between the fair selling price and the landed cost of imported goods.

(iv) ***Quantitative restriction on imports.***—This is necessary when home producers require protection not so much because foreign products can be obtained at a cheaper price as when the home consumers are unsympathetic to the home industry, even though the indigenous goods are of superior quality and low price. There is unfortunately even now a prejudice in India against home-made goods, and quantitative restrictions are the only possible way to ensure the sale of indigenous goods. Thus, from the point of view of comparative selling prices, the Indian Jute Mill Bobbin Industry is in no need for "Tariff protection". Jute mills in India, dominated by Europeans, however, show a marked preference for imported products, even though these are more costly and the difference in quality is not appreciable. The Indian Bobbin Industry, therefore, requires quantitative restrictions of imports for its protection. Even in the case of industries which are given tariff protection, a mere equalisation of the local cost of production with the landed cost of imported goods would not always turn the market in favour of indigenous goods until, either, as in the case of the Cycle Industry, the extent of the duty is loaded with an allowance for prejudice in favour of foreign goods, or tariff protection is supplemented by quantitative restrictions on imports.

(b) and (c) While undoubtedly Protection by means of Protective Duty should be the normal method, the Tariff Board should be asked to take into account the various considerations mentioned above in finally recommending the patricular form which protection in individual cases would take. The main objective which the Tariff Board should have is to grant effective protection to an industry without causing unnecessary burden either on the Government or on the consumers or on other allied industries. It should also consider which particular form would ensure the quickest development of the Industry.

Question 42.—What should be the Government's policy and procedure where the situation calls for only safeguarding or anti-dumping measures, as distinct from substantive protection, whether for small-scale or large-scale industries?

Ans.—A situation calling for safeguarding or anti-dumping measures differs from one requiring substantive protection principally in two respects. In the first place, the need for protection is emergent and does not generally brook any delay. In the second place, the period of protection is much shorter than in the case of substantive protection. As already indicated, the machinery of protection moves very slow in our country and, in the case of dumping by foreign countries, the need for prompt and quick measures is paramount. The question as to whether the Government should be armed with executive powers to correct any maladjustment should be carefully examined but, if that is not considered advisable, any enquiry that may be made by the Tariff Board must be finished as quickly as possible in order that the adverse effects of dumping may not be continued for a day longer than is necessary

In view of the fact that the additional duty would be only for a temporary period, the measure of assistance must be adequate.

Question 43.—(a) What place would you assign to export duties in the tariff system in the future?

(b) Would you advocate export control (by duties or otherwise) for the purpose of—

(i) safeguarding the domestic consumer against critical shortages;

(ii) conserving domestic supplies of raw materials for utilisation by domestic industries?

Ans.—(a) Except in the case of monopolies, export duties have a deterrent effect on the export of the particular commodities to foreign countries. It should, therefore, be the general policy of the Government not to impose export duties. There is, however, no objection to the continuance of export duties on Jute and Jute Goods in so far as they help the Government in recouping themselves of any losses that may be entailed on account of fiscal measures adopted by them. The very useful part that export duties play in respect of monopolies and semi-monopolies is furnished by the step taken by the Government of India following the Devaluation of the Rupee in increasing the export duty on Hessian (chiefly exported to the U. S. A.) and imposing similar duties on a number of other articles (exported to Pakistan). In both these cases, Devaluation was bound to lower the earnings of hard currencies (including Pakistan Rupee) by India on account of the sale of a given quantity of these commodities which partake of the nature of monopoly. As, however, it was not possible to increase the volume of India's export to make up the deficiency measured by the extent of the depreciation of the India Rupee, the Government of India have rightly stepped in and taken actions on the lines referred to above. These would have the double effect of increasing the Revenues of the Government and of, at least, maintaining the volume of earnings of Hard Currencies, without causing any strain on India's exports of the articles consumed.

(b) Yes. Subject to the overriding necessity of earning adequate foreign exchange and of maintaining contact with foreign customers, export control is desirable both for (i) safeguarding the domestic consumers against critical shortages, and for (ii) conserving domestic supplies of raw materials for utilisation by domestic industries. In regard to (ii), particular mention must be made of the need for the conservation of the domestic supplies of mineral resources which are, by their very nature, of limited availability. The extent to which these articles may be exported to foreign countries has to be determined after a full prospecting of the mineral resources of the country. It has, for instance, been mentioned that the resources of metallurgical coal in India are sufficient enough to meet the demands of the Steel industry only for about 60 or 70 years more. It should, therefore, be the policy of the Government not to allow the export of such Coal to other countries, or even to limit their use in India for purposes other than those for which they are essentially required. The same can be said also of other minerals.

At the same time it may perhaps be, in the ultimate interest of the country, to permit the export of minerals to a limited extent as a part of barter agreements with other countries. Even in such cases, however, the question of available supplies, both actual and potential, have to be carefully ascertained before any export is permitted.

The question of exporting agricultural raw materials is not, however, so important from a short term point of view. There may be a number of such articles for which there is no immediate demand within the country and it would not certainly be wise to prohibit their exports. But in regard to those which have a ready market within the country, their export should be strictly limited to the available exportable surplus.

Question No. 44.—What fiscal measures, if any, would you recommend to enable an established industry to maintain its exports?

Ans.—Generally speaking, and subject to the considerations mentioned below, an established industry should not require any assistance in regard to the exports of its products to other countries. In the first place, if it is found that, in view of the keen competition from other countries, an Indian industry is not in a position to compete on equal terms with them in foreign markets and, if it is considered necessary by the Government to encourage exports in order to enable the country to earn valuable foreign exchange, an inducement should be given in the form of a small bounty. This would of course entail expenditure on the part of the Government and perhaps also would reduce the available supply in the home market, and the question would have to be carefully examined having regard to the net advantages to the country of such a policy. In the second place, reference has been made above to the need for the removal of all customs duties on the import of raw materials. The case for such removal is much stronger in the case of those industries which, besides catering to the local demand, have also considerable scope for marketing their products in foreign countries.

Question No. 45.—Have you any comments on the method by which the Tariff Board at present fixes the quantum of protection (the method of comparing the fair selling price of the domestic product with the landed cost of the imported product)?

Ans.—The quantum of protection has necessarily to be determined by comparing the fair selling price of the domestic products with the landed cost of imported products. While, however, the latter is a determinable factor, certain amount of speculation is necessarily entailed in arriving at a fair selling price. It is not always possible to anticipate the figures which would influence the cost of production in the course of 5, 6 or 7 years for which the protection recommended would be in force. The cost of production, for instance, may be increased on account of an increase in the cost of the raw materials which, in its turn, depends both on the prices charged by the foreign sellers as also on such other actions as may be taken by the Government of India themselves (for example, the imposition of an import duty, either revenue or protective, or the fixation of a minimum price for agricultural raw materials), cost of labour welfare and awards by industrial tribunals and other similar factors. There may also be some factors which may reduce the cost of production. As already mentioned, however, it is not always possible to anticipate all these developments at the time of recommending the measures of protection.

The best method by which this difficulty can be overcome is for the Tariff Board to maintain a constant watch over the affairs of an industry which has been given protection.

As already referred to, however, in some cases "allowances for prejudice in favour of foreign goods" have to be made in determining the fair selling price of an article.

Question No. 46.—Would you recommend variations in duties to meet variations in import costs?

Ans.—Generally speaking, except in the case of anti-dumping measure, the variation in the import cost should not lead to variation in duties during the period of protection already recommended by the Tariff Board. If, however, there is a sudden reduction in the landed cost of imported goods, it should be open to the Tariff Board to review the claims of any Industry which applies for further protection and recommended such action as may be necessary.

Question No. 47.—Where protection is to be given by tariffs, what are the considerations which you think should govern the choice between the various alternative forms of duty such as specific, *ad valorem*, compound, etc.

Ans.—Specific duties have naturally no relation to price changes and are absolute during the duration of the protection. At a time when internal prices are rising with a constant or fall in price for imported goods, specific duties undoubtedly confer an unwanted advantage on the indigenous Industry. When, however, internal prices fall with an opposite movement in respect of imported goods, specific duties are not sufficient to cover the margin between internal and foreign prices. This may not, however, in all cases, cause embarrassment to local industries as their price may fall on account of the improvement in the technique of production.

Ad valorem duties, on the other hand, being proportionate to the prices of imported goods would definitely confer an advantage at a time when foreign prices mark a rise. The contrary would be the effect in the case of the foreign prices.

Considering all these facts, there is a definite advantage in the compound form of duty where both *ad valorem* and specific duties are imposed with a minimum fixed.

Question No. 48.—What do you think of the utility and practicability of tariff quotas?

Ans.—There is definite advantage in fixing tariff quotas in respect of certain commodities. The fixation of high protective duties may not in all cases prevent the foreign manufacturers from flooding the internal market with goods. If in such circumstances, definite quota imports are fixed either in addition to or instead of import duties, the object of developing Industries may perhaps be more effectively tackled. (Please refer to answer to previous questions).

Question No. 49.—Would you like a minimum or a maximum duration to be laid down for protective measures?

Ans.—While it is necessary to ensure that the duration of protection should not be unduly prolonged, it may not be possible for the Tariff Board, at any given time, to anticipate the period for which protection would be necessary. As a matter of fact, no time limit is possible to be fixed in the cases of an industry to which protection is granted but, in order to encourage improvement in the methods of production and prevent wasteful expenditure, the period of protection may in the initial stages, be confined to 15 years, with a provision for automatic extension if the Tariff Board, meanwhile, finds it necessary in the interest of the Industry.

Question No. 52.—In order to facilitate the objectives of our fiscal policy do you think it would be necessary for Government or quasi-Government institutions to participate in foreign trade (a) in the short period and (b) in the long run?

Ans.—No. Any Government or quasi-Government institutions to participate in foreign trade either for the short period or in the long run would, far from attaining the objective mentioned in the question, retard foreign trade.

Question No. 53.—If your answer to the above question is in the affirmative what form of Government or quasi-Government organisation would you recommend? What would be the limits to their activities, and what conditions if any, would you impose on their functions?

Ans.—Does not arise.

Question No. 54.—The Indian Fiscal Commission of 1921-22 suggested several "supplementary measures" as an aid to the tariff policy which they had recommended. Would you enumerate the non-official measures that Government should now adopt in furtherance of any approved fiscal policy both (a) in the short period and (b) in the long period?

Question No. 55.—In particular, have you any special suggestions to make as to how Government could facilitate—

(a) the supply of essential industrial raw materials, where these are not readily available in the country;

(b) the supply of essential plant and machinery;

(c) the supply of cheap fuel or power;

(d) the provision of cheap, adequate and quick transport both for the movement of raw and semi-processed materials and their finished products, made available under a scheme of rationalised freight structure;

(e) the supply of technical personnel of different grades;

(f) the supply of technical information about industrial methods and processes;

(g) the supply of industrial finance, both for use as block and as working capital?

Ans.—There are a number of non-fiscal measures which can be adopted by the Government in furtherance of any approved fiscal policy both in the short period and in the long period. As a matter of fact, the success of a fiscal policy would depend to a large extent on the advantage which a protected industry is able to take of the relief granted by protection. While to some extent it should be the responsibility of the industry to improve its technique of production and to reduce its cost of operation, it may at the same time be stressed that unless supplementary measures are taken by the Government, the industry would find it very difficult to take advantage of the scheme of protection.

The supplementary measures indicated in Question No. 55 are undoubtedly essential and a detailed reference is being made to these in a subsequent paragraph. Meanwhile, it is also necessary to stress that there are other measures which are necessary for the development of industries in the country. These may be stated below.

(1) *Labour.*—Improvement in the technical efficiency of workers of all grades. For this it is necessary to provide a sound educational system in all stages, primary, secondary and technical. The majority of the workers in the factories are not even literate and, apart from any scheme of education, arrangements should be made for providing primary education to all classes of people and particularly to those from whom workers in the factory will be recruited in the future. It is also necessary to introduce a more industrial bias to the system of primary education.

As regards superior staff, arrangements for technical education in schools and colleges should be further extended, the theoretical instruction being supplemented by practical training in factories.

(2) *Transport.*—It is necessary to ensure cheap, adequate and quick transport both for the movement of raw and semi-finished processed materials and other finished products under a scheme of rationalised freight structure. It is hoped that with the production of locomotives and wagons in India, railway

transport would be much more satisfactory in the near future. Further, with the setting up of the Railway Rates Tribunal for which preliminary steps have already been taken, the question of a satisfactory Railway rates policy may be expected to be settled at an early date.

(3) *Anti-dumping measures.*—Reference to this aspect has already been made in answer to a previous question.

As regards the suggestions made in Question No. 55, the following observations may be made:

(a) *Supply of Industrial Raw Materials.*—While India produces a large number of raw materials, there are some in respect of which she has to depend on foreign countries. Upto the time of the last War, the local industries had their own arrangements for procuring these raw materials. But mostly as a result of the experience gained during the war, many of the countries are now regulating the supply to foreign countries of raw materials which are comparatively in short supply throughout the world. It may not, therefore, be possible in the future for the individual industries to make their own arrangements for the import of raw materials from foreign countries necessitating some active help from the Government of India. The Government may enter into trade agreements with other countries for the import of these raw materials in exchange of those which India has an exportable surplus.

(b) *Supply of Essential Plant and Machinery.*—The same considerations which should apply in the case of supply of raw materials are also applicable to that of plant and machinery.

(c) *Supply of Cheap Power and Fuel.*—The Government should take active steps for the supply of electricity to the industries. It is expected that the completion of the Damodar Valley Scheme would result in the generation of considerable volume of electric power. The question of utilising the low grade coal for the generation of electricity should also engage the attention of the Government in this connection.

(g) *Supply of Industrial Finance.*—Reference has already been made to this question in a previous section.

Question No. 56.—How and to what extent could the trade and industry co-operate with Government in the provision of such facilities?

Ans.—Trade and industry would be very glad to co-operate with the Government in providing these facilities. Arrangements already exist for the training of technicians in the various factories and further progress may be made in this direction if the work in these factories is co-ordinated. Technical information about industrial methods and processes may be supplied by the different sectional Industrial Associations in co-operation and collaboration with Chambers of Commerce and the Government.

Question No. 66.—(a) Do you consider that industries receiving protection or assistance from Government owe a special obligation to the rest of the community as regards the manner in which they render their services?

(b) If so, please state your views as to these obligations under the following heads:

(i) price policy and price structure;

(ii) wages and conditions of labour;

(iii) adoption of technological improvements;

(iv) initation of research in the technique of production and distribution;

(v) training of apprentices and Government scholars and stipendiaries;

(vi) control over the distribution of the products of protected industries in certain contingencies.

Ans.—(a) As the object of tariff protection is to develop industries and as the grant of protection to particular industries undoubtedly imposes some temporary burden on the consumers and may, in some cases, also entail revenue loss to the Government, the protected industries must necessarily have some responsibilities to the country as a whole. They must justify the special advantages which are conferred on them not merely by expanding their production, improving the quality of the output and reducing the prices charged for their products (though, necessarily, all these will take some time for fruition), but by fulfilling their obligations to the community by helping in the development of other ancillary and subsidiary industries and by maintaining a standard of conduct to be emulated by other industries which may not come under the category of protected industries.

(b) (i) *Price Policy and Price Structure.*—The immediate effect of the grant of protection would undoubtedly be to raise the prices. For, in most cases, it is on account of the comparatively low prices of the imported goods that protection is asked for and it is the object of protection to raise the prices of imported goods to the level of local cost of production. After sometime, however, it should be possible for the protected industries to introduce improvements in their methods of production and to train up workers in the technical processes and also to devise methods by which any defects in the raw materials can be neutralised. The cumulative effect of all this should be to introduce economies in the cost of production. These economies should, in course of time, be passed on to the consumers, and it is expected that the protected industries would follow this policy of their own accord. In any case, the Government should always keep a constant watch over the price policy of the protected industries and, if necessary, the Tariff Board may be asked to review the cases of the protected industries at stated intervals. In view of this and also having regard to the growing public opinion, it is not necessary that any official control should be exercised over the price policy of protected industries, apart from any price control that may be instituted by the Government in emergencies like those brought about by the last War and the post-war developments.

(ii) *Wages and Conditions of Labour.*—In view of a large number of enactments already passed by the legislature with a view to improve the conditions of labour and stabilise their wages, it does not appear to be necessary to make any special provision for the protected industries. In the first place, labour legislation is meant for all the industries, whether protected or not, and any special obligations that may be imposed on the protected industries in this regard would create complications for other industries. In the second place, the effective degree of tariff assistance that may be granted to a protected industry will be reduced if, subsequent to the grant of protection any new burden is imposed on the industry.

(iii) and (iv) *Technological Improvements and Initiation of the Research.*—It should definitely be the duty of protected industries to introduce technological improvements in their methods of production and initiation of research. As a matter of fact, one of the grounds on which protection is justified is the inability of the industries to make any improvements in their processes of manufacture if they have to compete with foreign manufacturers on unequal terms. The respite which protection gives to them should give them adequate opportunity for introducing technical improvements in the methods of production either by importing technicians from abroad or by conducting researches in their own laboratories.

At the same time, it should be the duty of the Govenment also to provide every facility to the industries, whether protected or not, to carry on research either in their own laboratories or in Central Research Institutes. This would be particularly necessary for those industries, particularly of smaller sizes and resources, who may not be able to make their own arrangements for research. It will be necessary, specially for these industries, for the Government to set up a number of Research Institutes. The action already taken by the Government in starting five National Research Institutions is in the right direction, but should be further supplemented.

(v) *Training of Apprentices.*—At the early stages of a new Industry, it may be difficult to secure technical personnel from within the country and it may be necessary for the industries to import technical personnel from other countries. We cannot, however, depend for a long time on foreign technicians and one of the conditions, on which protection should be granted, would be to ask the protected industries to train up Indian technicians and dispense with the services of the foreigners within a stipulated period.

(vi) *Control in cases of Emergencies.*—Depending on the nature of emergencies it may be necessary for the Government to exercise control over the distribution of commodities in the country. The fact that an industry is protected does not, however, place it in a special category in such an emergency.

Question No. 67.—(a) Is it necessary to stipuate that no protected or assisted industry should engage in any restrictive practice in respect of (i) production, (ii) distribution, or (iii) prices?

(b) What general principles would you suggest to regulate the right of association or combination of the different units in a protected or assisted industry?

Ans.—Restrictive practices in respect of (1) production or (2) prices should generally be discouraged. But a definite prohibition of restrictive practices would not be in the national interest in view of the fact that such restrictions may sometimes be found necessary in the interest of the country. Further, restrictions of productions may be forced upon an industry as a result either of internal dislocation caused by labour troubles, shortage of raw materials or transport difficulties or of external factors of overproduction. If, however, it is found that the restrictions are imposed by the industry for no valid reasons, it should be open to the Government to intervene. As regards prices, mention has already been made of the attempts made by the Tata Scob Organisation in the case of Steel Industry and the Indian Sugar Syndicate in respect of the Sugar Industry. Reference may also be made to the very salutory work done by the Indian Cement Marketing Board. At a time when there is a danger of uneconomic competition between the internal units of production, it should be open to the industry to make such reasonable arrangements as may be found desirable to prevent prices from falling below a minimum. Even in such cases, however, the Government should keep a watch over the activities of such price organisations in order that their actions may not jeopardise the interests of the consumers.

Question No. 68.—Would you lay down any conditions regarding the financial structure of the industries receiving protection?

Ans.—It is desirable that the Industry should have a sound financial structure before it qualifies for protection. At the same time, account should be taken of the following two factors:—

In the first place, an industry may have financial difficulties on account either of not very encouraging response to its invitation for share capital. As

has been made clear above, one of the difficulties which industries generally experience is inadequate finance and, when examining the financial structure of any industry that applies for protection, consideration must be given to this aspect of the matter.

In the second place the fact that an industry may be in temporary financial difficulties on account of severe competition from foreign countries should not have any significance in determining its financial structure.

Question No. 69.—(a) Are you satisfied with the present arrangements for the standardisation and control of the quality of industrial products? In particular, do you think that any special arrangements for the control of quality of the products of protected and assisted industries are necessary?

(b) If so, would you impose this duty on the protected or assisted industries through such special organisations as they may set up with the approval of Government or would you set up any special institutions outside these industries?

(c) What in your view should be the structure and functions of such organisations or institutions? Should they be professionally expert bodies or be composed of representatives of the different interests concerned?

Ans.—Till recently there was no machinery in India for the standardisation and control of the quality of industrial products. It is, however, felt that the Indian Standards Institution which has since been established would be able to fill up the gap. It should be the duty of all industries to co-operate with the Indian Standards Institution in this regard.

Question No. 70.—Do you think that the obligations should be embodied in the relevant statutes dealing with protected or assisted industries or be left to be prescribed by the tariff-making machinery on an *ad hoc* basis in each individual case of an industry seeking protection or assistance?

Question No. 71.—(a) Do you consider that any special administrative machinery is necessary to ensure that these obligations of protected and assisted industries are duly discharged? If so, what form of administrative machinery would you suggest?

(b) Or would you prefer that this function should be entrusted to a special wing of the tariff-making machinery or of any other existing organisation?

(c) Or, do you think that it will be necessary or desirable for Government to be represented on the management of protected or assisted industries in order to ensure that these obligations are carried out in the spirit in which they are conceived?

In view of the observations made above, it is not considered necessary that the obligations of the protected industries should be imposed in the relevant statutes. The protected industries may be safely depended upon for fulfilling the obligations mentioned above.

It is absolutely unnecessary for the Government to be represented on the management of protected or assisted industries in order to ensure that the obligations are carried out in the spirit in which they were conceived.

Question No. 72.—In the light of your replies do you consider that the existing administrative organisations will be adequate to deal with the problems of implementation that may arise out of Government's acceptance of a comprehensive policy as regards (i) fiscal measures and (ii) non-fiscal measures?

Question No. 73.—If not, what organisational changes would you propose in the existing machinery of Government dealing with these subjects?

Question No. 74.—(a) It has been suggested that it might be necessary to set up one comprehensive organisation (partaking of the nature of a Trade and Industrial Planning Commission) subdivided into suitable branches to deal with the planning and execution of various measures, relating to (i) tariffs, (ii) other fiscal measures, and (iii) non-fiscal measures, etc. Do you agree with this view?

(b) If so, would you indicate the type of organisational chart that you have in mind?

Question No. 75.—(a) Alternatively, would you prefer a series of specialised organisations dealing with these particular subjects?

(b) If so, how would you correlate the functions of these administrative organisations?

Question No. 76.—As a further alternative would you favour only one Technical Organisation dealing with Tariffs leaving the other subjects to be dealt with by the different Ministries concerned more or less in the manner followed at present?

Question No. 77.—Whatever may be the structure of the planning and co-ordinating machinery that you may favour, do you agree that a specialised organisation for the tariff purposes is essential to the implementation of a scientific tariff policy?

Question No. 78.—If so, would you agree with the recommendations of the Indian Fiscal Commission of 1921-22 that the Tariff Board or the Tariff Commission should be—

(i) a permanent body of high standing,

(ii) consisting of members who are of high ability, integrity and impartiality—preferably with a knowledge of economics and a practical acquaintance with business affairs? (Paras. 302, 309—Chapter XVII).

Have you got any other views on the status and structure of an appropriate Tariff Board or Commission?

Question No. 79.—What, in your view, are the approppariate functions of a Tariff Board? Do you agree with the recommendations of the Indian Fiscal Commission of 1921-22 on this subject? (Para. 306, Chapter XVII).

Question No. 80.—Do you consider that the existing functions of the present Indian Tariff Board as laid down in the Government of India Resolutions of November 3, 1945, November 26, 1947 and August 6, 1948 (summarised in the note to Section B) are adequate? If not, what changes would you suggest?

Question No. 81.—(a) Do you consider that the present structure and organisation of the Tariff Board are adequate for the discharge of the duties entrusted to it?

(b) If not, what structural or organisational changes would you propose?

Question No. 82.—Do you think that the present procedure under which an industry's fitness for protection is considered only on application by that industry is sound? If not, how would you like it to be modified?

Question No. 83.—In any case, should the present procedure be modified so far as small and unorganised industries are concerned? If so, in what direction?

Question No. 84.—Where the procedure provides for an application for protection, should the application be addressed to Government or to the Tariff Board?

Question No. 85.—What modification would you suggest in the present procedure to make it more expeditious?

Question No. 86.—Have you any improvements to suggest in the Tariff Board's present working methods (including the procedure for public hearings)?

Question No. 87.—Do you consider that the Tariff Board's recommendations should normally be accepted by Government and implemented by it?

Question No. 88.—(a) Having regard to the nature of the duties and functions entrusted to the Tariff Board, do you consider that it should be placed on a statutory basis?

(b) If so, should the statute lay down only the composition and functions of the Tariff Board or also include the general principles governing tariff policy, the general procedure to be followed in tariff enquiries and the manner of enforcement of the obligations of protected or assisted industries?

(c) To what extent would such statutory provisions militate against flexibility? How could the possible risk of rigidity in procedure and administration implicit in statutory provisions, be either eliminated or reduced?

Ans.—The Committee of the Chamber feel that the questions comprised in Section H (Questions No. 72 to 88) impinge on basic issue of a fundamental character, answers to which should provide the angle from which these issues should be approached and which will also provide answers to individual questions. It is, therefore, considered desirable to group these questions together and deal with them as a whole.

The deficiency of the organisation of the *Ad Hoc* Tariff Boards appointed from time to time, both before the War and after, and their failure to meet the expectations raised necessitate the expanding of their scope and functions. The policy of discriminating protection itself was, in a way, negative in its outlook and inspiration, being of the nature of a grudging concession to India's demand for industrialisation. Apart from the very stringent conditions laid down by the Fiscal Commission, to which reference has already been made previously, the original formula of the Fiscal Commission laid the onus for establishing the claim of an industry to protection entirely on the applicant, and there was hardly any chance of its claims being recognised unless it could establish its claims covering all the specific conditions which, except for a few resourceful industrialists, was hardly possible to do.

This defect in the whole scheme of protection and handicaps imposed on the Tariff Board by the Fiscal Commission were realised in course of time and demands were made by the Indian commercial community upon the Government of India for a complete re-orientation of the outlook of the Tariff Board and a change in the framework within which it carried on its activities. Even before the attainment of Independence and with the post-war reconstruction of the then Viceroy's Cabinet, these demands had to some extent been met by the Government of India, and, in pursuance of their Industrial policy announced on the 21st April 1945, an interim Tariff Board was constituted by a Resolution of the Government of India dated the 3rd November 1945. The conditions which an industry had to fulfil in order to become eligible for protection or assistance were, as already mentioned, more liberal from those laid down in the Majority Report of the old Fiscal Commission. Subsequently on two further occasions, in November 1947 and August 1948, that is after the attainment of the Independence,, the Government of India made further expansion of the scope of the activities of the

Tariff Board. These expanded functions are expected to remove many of the old deficiencies under which the Tariff Board had to act in the past in so far as it was no longer to function as a mere Board of Referees and was invested with some initiative of its own to pursue an active policy. Subject to the observations made below, these new functions of the Tariff Board are quite satisfactory as far as they go but, to make the functions effective and also to ensure a continued policy the Tariff Board should be reorganised on the lines indicated hereafter and should be given a permanent status.

Even so, it is necessary to point out that the Tariff Board cannot function satisfactorily on fiscal matters, in the absence of a clear and definite enunciation of the plan and policy to guide it within its limited scope. The enunciation of the policy and plan itself must depend on the objective of the attainment of the progressive industrialisation on a sound basis, with all possible expedition. Once the plan and policy are fully known, the task of the Tariff Board will be considerably facilitated, almost as a matter of course. Evidently, the formulation of such a comprehensive plan with an indication of necessary priorities, according to the claims of the different industries in our complete industrial set up is conditioned by numerous factors of both fiscal and non-fiscal significance. Such a task can be taken up only by a National Trade and Industrial Planning Commission to whom the active support by the Cabinets of both the Central and Provincial Governments should be vouchsafed, in order to avoid any possible complications in future, owing to the divided responsibility of the Centre and the provinces in matters of industrial developments. Such a comprehensive plan is essential to a complete re-orientation of our fiscal policy by giving it a positive outlook, as distinguished from the original negative outlook of the policy of discriminating protection.

Such a plan would relieve the individual industrialists or promoters, with inadequate resources and information at their disposal, from the responsibility of making out a case for grant of protection to the respective industries. For, in the new scheme, which would provide a positive lead to the Tariff Board as well as to the industries, both existing and potential, about the prospects of enterprises in which they are engaged or which they propose to take up, the grant of protection would not depend very much on the effectiveness of individual applications. As a matter of fact, the Plan, to be effective, should even indicate the nature of fiscal and non-fiscal assistance which should be given to particular industries and also to the development of industries in particular regions. As has already been mentioned before, the development of industries would depend as much on non-fiscal measures as on fiscal assistance. The provision of adequate capital, through specialised institutions, formulation of a correct railway rates policy, positive encouragement in the shape of stores purchase, provision for research etc. are factors whose importance are in some cases even greater than the need for tariff protection. Only in this way can the present pessimistic outlook of industrialists can be completely transformed into one of confidence so essential for the attainment of our objective of quick and widespread industrialisation, particularly in those sectors where the necessity of harnessing private capital enterprise is considered to be indispensable.

In the prevailing condition of India's economy against world background of fluctuating conditions, the Plan cannot entirely be of the nature of an unalterable blue-print. On the contrary, as a dynamic issue, it may have to be supplemented, elaborated, and amended from time to time. The Planning Commission, referred to above, should, therefore, be on a high level and established on a permanent basis to advise the Government in the matter. Further, to ensure a quick implementation of the Plan in the logical sequence of the various measures contemplated as also to ensure an effective and timely

inter-departmental co-ordination of fiscal and non-fiscal measures, there should be an Economic Committee set up within the Cabinet of the Central Government. The objective of this Committee should be to see that effective inter-departmental co-ordination is secured to ensure concerted action according to the plan.

It is not considered advisable to substitute such a Commission by the Tariff Board itself, with necessary changes in its constitution and scope. The functions of the Tariff Board as further extended in the resolution of the 6th August, 1948, are by themselves onerous and complicated enough, and the effective discharge of these functions do not make it indispensable to combine them with those of the proposed Planning Commission. Evidently, for an efficient discharge of the functions of the Tariff Board, as per Resolution of the 6th August 1948, will call for a strengthening of its personnel, both technical and statistical. The constitution of the Board itself should be suitably widened to include a Statistician and an Economist and also a technical member to be chosen from a panel of scientists and technicians from time to time, according to the requirements of the specific enquiries taken in hand.

Bengal National Chamber of Commerce, Calcutta

Question No. 89.—For reasons, explained in the Annexure to these Replies, the Committee of the Chamber fully approve of the basic purposes and objectives underlying the Havana Charter on Trade and Employment.

Question No. 90.—Subject to the observations made in answer to Question 91, the principles laid down in Art. 10 of the Charter, providing for the economic development and reconstruction of the backward and under-developed countries, seems to be adequate. The Committee, however, feel that the actual clarification and the application of these ideas to such under-developed and populous country, as India, requires further clarification, specially in view of the balance of payment difficulties which India is experiencing for about a year now. The application made by the Government of India to obtain loan from the International Bank for Reconstruction:—

(1) to rebuild her system of national transport and to revitalise her coastal shipping,

(2) to initiate and develop such vital industries as chemical manures, and steel, multi-purpose river projects, collective farming etc. to increase sources of employment and gainful occupations.

and (3) to meet the immediate difficulty of India in meeting her foreign obligations, to pay for her food bills and such goods as are required to rehabilitate her industry and to produce commodities on competitive price level,

is not meeting with a satisfactory response. The Committee, therefore, feel that, though the objective as laid down for the economic development and construction of the backward and under-developed countries has been admirably placed in the Havana Charter in terms of the broad objectives of the U.N.O. Charter, in actual application these objectives are not likely to be realised.

Question No. 91.—The provisions for meeting the demands of the backward and under-developed countries and their economic rehabilitation and construction have not been very elaborately dealt with in the Charter other than on a general basis, such as, balance of payment grounds, States' power to impose restrictions, etc., etc. Unless in the case of countries, like India, the over-all picture of trade, goods and services, including the facility of getting access to foreign markets and resources in an adequate measure is forthcoming, very

fruitful result may not be attained within a measurable time in applying such short term and protective measures in the way of quantitative restrictions of imports or retaining such raw materials as are necessary for purposes of processing in the country. The difficulty experienced by India in meeting her requirements of such essential materials as steel, building materials, fertilisers, Railway equipments, mechanical transporation, vehicles and vessels does not indicate a satisfactory solution of India's immediate problem within the next few years. Unless the I.T.O. through its Regional Committee, take a more realistic view of the affairs and the requirements of such economically under-developed and backward countries as India, where the system of transport communication and movement are still very much unsatisfactory, it is ideal to postulate any measure or degree of satisfaction in the attainment of any standard of happiness.

Question No. 92.—The Hon'ble the Prime Minister, in his statement of Policy on participation of foreign capital in India, has made a genuine gesture of goodwill to the nations of the world to offer their generous aid to India in rebuilding and developing her national economy. It is admitted by intelligent critics, who desire the development of India's economic resources on national and profitable lines, that the broad statement of policy, as enunciated by the Hon'ble the Prime Minister, indicating the extent to which India is prepared to welcome foreign investments and assuring them of their continued fruitful employment in this country, shows a very practical statesmanship. The answer to this broad statement of policy should be given by such resourceful countries as the U.S.A., the U.K. and the other European countries by opening up factories and establishments in India for supplying her in an adequate quantity the resources and skill of these developed countries. The broad policy of protection to foreign investments in national interests as provided for in Article 12 of the Havana Charter clearly lays down such objectives and is one to which India should concur on a very broad basis. But the volume and the way in which the application of these high principles are applied in actual practice would determine the extent to which a country like India can take advantage of these policies.

Question No 93.—The broad line of commercial policy, as set out in Chapter IV of the Havana Charter, is one which should receive general acceptance. But, as stated in earlier paragraphs, to maintain her economy on any basis of stability and to maintain her minimum requirements of Food and goods, India should receive, in a sufficient degree, assistance from the I.M.F. and from other countries holding surplus goods and services. Unless countries with a large population, like India, whose national policy is to maintain peace and tranquillity within her country and across her frontiers and which is forced to maintain a large Army at a cost disproportionately large to her total national income, obtain assistance from prosperous and developed countries to improve and balance her national economy on a fruitful level of employment and gainful occupation and can increase the standard of living of her people, the result would be to create such a chaotic condition in her borders as will be a menace to peace and tranquillity to the world. The Member Nationals of the U.N.O. and the I.T.O. should have a clearer perspective of their obligations to countries like India which should be helped in securing a degree of self-sufficiency within a measurable time and in improving her employment and raising the standard of living of her population to the minimum international standard.

Question No. 94.—The relaxations obtained by the Indian Delegation to the broad Commercial Policy as envisaged in the Charter are quite favourable. The Charter now empowers the backward countries to grant, in appropriate circumstances, tariff protection to particular Industries and also provides a procedure according to which the contracting parties may seek prior approval

of the I.T.O. to the employment of any non-discriminatory protective measures. such as quantitative restrictions required for protective measures which may not be justified on balance of payment grounds. Though the procedure of prior approval for quantitative restrictions for protective purposes, which was strongly opposed by the representatives of India at Havana, has undoubtedly been retained in the Havana Charter, all the disadvantages involved in this prior approval have been mitigated by making the approval mandatory in certain specified cases such as Import restrictions designed to protect Industries established during the period from the 1st January 1939 to the 24th March 1948, and those necessary to protect Industries engaged in the processing of raw materials or of the bye-products of the domestic Industries. Unfortunately, however, the position of the numerous industries, both small-scale and medium-sized, which were started during the period, mentioned before, *i.e.* 1st January 1939 to 24th March 1948, have become precarious owing to the liberal import policy enunciated by the Government of India at various times since the termination of the hostilities. As a matter of fact, 15 or 20 groups have practically closed down or are in a tottering state. It is to be regretted that even inspite of this clear provision made by the Havana Charter, the Government of India have more than once expressed their inability to apply quantitative restrictions for the protection of the war-time industries and the rehabilitation of the industrial economy of the country.

Question No. 96.—As has been very clearly stated in the foregoing paragraphs, it will be to India's advantage to be a partner in the Comity of Nations and a Member of the I.T.O. and to obtain a measurable degree of assistance and work in collaboration with the other countries in working the Havana Charter and the International Trade Organisation. The policy of gradual relaxation of tariffs and removal of trade barriers is viewed in this perspective.

Answer to Question No. 97.—The question does not arise.

Answer to Question No. 98.—India, being ranked as the seventh of the world's foremost countries in trade and employment, has been offered a permanent seat on the I.T.O. Those Nations who made the preliminary drafting of the Havana Charter have thereby accorded India her rightful status as one of the foremost Nations of the world in the field of trade and employment. It is the view of the Committee of the Chamber that that the functions of the I.T.O., the procedure laid down for its working and India's position and status in the International Trade Organisation have been formulated in right spirit and should be one which may be accepted by India.

Answer to Question No. 99.—Yes.

Answer to Question No. 100.—The concessions granted by India to other countries and those received by her from them appear to be correctly conceived.

The only modification which should be made in the scheme is in relation to concessions in respect of Indo-Pakistan Trade which were not considered at the time in view of the Partition of India having been effected just a few months before the negotiations were completed. The Committee feel that the Government of India should now open negotiations with Pakistan for the purpose.

Answer to Question No. 101.—Yes.

Answer to Question No. 102.—No.

Answer to Question No. 103.—No.

Answer to Question No. 104.—Yes.

Preliminary Observations

on

Havana Charter

Article 55 of the U.N.O. Charter states—

"With a view to the creation of conditions of stability and well-being which are necessary for peaceful and friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples, the United Nations shall promote:—

(a) higher standards of living, full employment, and conditions of economic and social progress and development;

(b) solutions of international economic, social, health, and related problems; and international cultural and educational co-operation; and

(c) universal respect for, and observance of, human rights and fundamental freedoms for all without distinction as to race, sex, language or religion."

The Havana Charter, which sets out in detail the purpose of implementation of the U.N.O. Charter, aims at attainment of a "higher standard of living, full employment and conditions of economic and social progress and development," referred to above. The Nations who participated in the I.T.O. Conferences pledged themselves individually and collectively to promote national and international action designed to attain the following objectives:

"1. To assure a large and steadily growing volume of real income and effective demand, to increase the production, consumption and exchange of goods, and thus to contribute to a balanced and expanding world economy.

2. To foster and assist industrial and general economic development, particularly of those countries which are still in the early stages of industrial development, and to encourage the international flow of capital for productive investment.

3. To further the enjoyment by all countries, on equal terms, of access to the markets, products and productive facilities which are needed for their economic prosperity and development.

4. To promote on a reciprocal and mutually advantageous basis the reduction of tariffs and other barriers to trade and the elimination of discriminatory treatment in international commerce.

5. To enable countries, by increasing the opportunities for their trade and economic development, to abstain from measures which would disrupt world commerce, reduce productive employment or retard economic progress.

6. To facilitate through the promotion of mutual understanding, consultation and co-operation the solution of problems relating to international trade in the fields of employment, economic development, commercial policy, business practices and commodity policy." (Article 1).

Article 3 of the Havana Charter clearly stipulates that each member of the I.T.O. shall take action designed to achieve and maintain full and productive employment and large and steadily growing demand within its own territory through measures appropriate to its political, economic and social institutions.

With this object in view the Charter further stipulates for systematic collection and analysis of such information on domestic employment problems, trends and policies, including as far as possible, information relating to national income, and demand the balance of payments.

Article 7, *inter alia*, states that all countries have a common interest in the achievement and maintenance of fair labour standards related to productivity, and thus in the improvement of wages and working conditions as productivity may permit. The Members recognise that unfair labour conditions, particularly in production for export, create difficulties in international trade, and accordingly, each Member has agreed to take whatever action may be appropriate and feasible to eliminate such conditions within its territory.

Article 10 stipulates—

"With a view to facilitating and promoting industrial and general economic development and consequently higher standards of living, especially of those countries which are still relatively undeveloped, as well as the reconstruction of those countries whose economies have been devastated by war, and subject to any arrangements which may be entered into between the Organisations, the Organisation shall, within its powers and resources, at the request of any Member:

(a) (i) study the Member's natural resources and potentialities for industrial and general economic development, and assist in the formulation of plans for such development;

(ii) furnish the Member with appropriate advice concerning its plans for economic development or reconstruction and the financing and carrying out of its programmes for economic development or reconstruction;

(b) assist the Member to procure such advice or study."

In a scheme to increase greater collaboration between nations and to increase the resources of the participating countries and thereby to increase employment, Article 12 of the Charter, *inter alia*, stipulates

(b) the international flow of capital will be stimulated to the extent that Members afford nationals of other countries opportunities for investment and security for existing and future investments;

(c) without prejudice to existing international agreements to which Members are parties, a Member has the right:

(i) to take any appropriate safeguards necessary to ensure that foreign investment is not used as a basis for interference in its internal affairs or national policies;

(ii) to determine whether and to what extent and upon what terms it will allow future foreign investment;

(iii) to prescribe and give effect on just terms to requirements as to the ownership of existing and future investments;

(iv) to prescribe and give effect to other reasonable requirements with respect to existing and future investments."

With a view to safeguard the national economy of the participating countries, the aforesaid articles further provides that, subject to the provisions of paragraph (c) above, the members will

(i) provide reasonable opportunities for investments acceptable to them and adequate security for existing and future investments, and

(ii) give due regard to the desirability of avoiding discrimination as between foreign investments.

So taking a clear picture of the objective of the I.T.O. as envisaged in the Havana Charter, a greater measure of employment, free movement of goods and services, increase in the level of standard of all employed (including labourers) and maintenance of full and productive employment completes and overall picture of the world of to-morrow which I.T.O. aims to create. The case of the industrially undeveloped countries should receive special consideration in terms of Article 10 hereof. The sources of the federating measures to this Charter, if pulled together, may not be to attain such an increased level of employment gradually increasing the standard of living and removal of all barriers of trade collaborations and services between nations. But as the nations' representatives who participated in this international discussions have viewed for a world order of plenty and happiness. It will be fair for such undeveloped countries whose industry though considered have made good amount of progress during the last 2 or 3 decades but in terms of employment and standards do not conform to any international standards should aim at more and fruitful employment of his nationals in various fields of industrial activity, trade and commerce, to improve the well-being of the people and resources of the nations.

As far as the Chamber could make out to realise and attain to any measure of progress on the path of objectives as set out before the Nations must be placed on a very strong financial footing. Article 21 of the Havana Charter, therefore, clearly stipulates that it is primarily the responsibility of each Member to safeguard its external financial position and to achieve and maintain stable equillibrium in its balance of payments.

The very fact that India during 1948-49 had to import a huge quantity of food grains at a total cost of 130 crores of Rupees and during the financial year 1949-50 is expected to import 4 million tons of foodgrains at an estimated cost of Rs. 300 crores calls for special attention and consideration at the hands of the I.T.O. and the U.N.O. Not only is India endeavouring to maintain and focus all attention to reach a condition of stability in meeting her food bill by increasing production within the country, she is at the same time also making a humble but honest beginning to harness water power, increase the resources of land and generate electricity with a view to further industrialise the country to produce goods and create employment, ultimately to gradually raise the standard of living of his population. The effort of the Government of India on these lines of industrial regeneration and rehabilitation of her economy should be brought to the attention of the U.N.O. and its various ancillaries, *e.g.*, I.M.F., the International Bank of Reconstruction and I.T.O. It is hardly necessary to stress the comparatively small extent of fruitful employment in the productive field in India, the nourishment and standard of living which the Indian nation have been able to realise, even after 50 years of industrial progress, compared to the achievement of countries like the U.K. and the U.S.A. In India, organised establishments and industries hardly accounts for 1 per cent. of the population and, coupled with the organisations controlled by the Central Government, the total employment of wage-earners will be less than 2 per cent. of the total population. In subsidiary occupation (without taking into consideration the agricultural occupation of the country) hardly another similar number may be occupied. Expert Committees have stated that the partial employment in agriculture will hardly absorb more than a mere fraction of the rural population. India should, therefore, make a special case for consideration of the I.T.O. to maintain a minimum standard of employment within a reasonable period, say, 20 to 25 years when at least not less than 20 per cent. of the population should be expected to be fully occupied in gainful occupation, namely, industries, governmental institution and services, learned professions and

vocations and in organised and collective farming and ancillary trades and professions.

The problem of the under-developed countries has been a problem of all times, not only to world progress but to world security as well. These countries offer the most fruitful field for those great nations who desire to annex territories and exert their powers. The objective of the I.T.O. has been admirably set up in its true context in terms of U.N. Charter but it is sometimes felt that progress made in attaining any degree of measure of employment and raising the level of standard of the people of the participating nations is not progressing fairly as it should have been.

Bengal Chamber of Commerce, Calcutta

Question 89.—Yes: in the view of the Chamber and of its connected com mercial and industrial Associations, the provisions of the Charter are unexceptional and justify India's acceptance of them.

Question 90.—Yes: The provisos and escape clauses which qualify most of the Articles of the Charter which are of particular significance to this country adequately safeguard the requirements of India.

Question 91.—Does not arise.

Question 92.—The Chamber has studied the provisions of the Charter relating to the continued employment of existing foreign capital and new foreign investment in India and considers these to be in broad conformity with the policy towards foreign capital announced in the Prime Minister's Statement on the subject last April. Under the Charter and in terms of the Prime Minister's Statement, India is adequately safeguarded.

Question 93.—Yes.

Question 94.—Does not arise.

Question 95.—No—in neither respect.

Question 96.—Yes: The Chamber further recommends that in the interests of her status and position India should make a point of becoming an Original Member of the International Trade Organisation.

Question 97.—Does not arise.

Question 98.—So far as it is possible to judge at this stage, in the Chamber's view the functions and procedure of the International Trade Organisation as laid down in the Havana Charter are suitable and acceptable. As already indicated. India's position and status in the Organisation would be enhanced by her becoming an Original Member.

Question 99.—Yes.

Question 100.—No: These, on the whole, have been satisfactory though certain of the bilateral agreements recently entered into by India with some of the smaller western countries, involving inter-Government purchases, have not been as advantageous as might have been hoped.

Question 101.—On the whole, yes.

Question 102.—No comments.

Question 103.—No: Though it must be pointed out that commercial interests have little opportunity of observing the atmosphere of such negotiations which lie more within the experience of the Government of India.

Question 104.—Yes, subject to periodical review.

Hindusthan Chamber of Commerce, Calcutta.

Preamble

The terms of reference restrict the activity of the Commission within a certain specified heads, in elucidating them, my Committee feels they must be given an allowance of margin of movement as proposed in Clause 5 of the Circular letter of the Commission, which states "the Commission will welcome statements on any relevant point whether included in the questionnaire or not".

Since 25th June, 1949, certain stalwart events like the devaluation of rupees and clogging of Indo-Pakistan trade relations have cropped up; any examination not considering the said factors into account, would land us in some improbable conclusions, for the sake of prudence it is best to avoid at the very outset.

The Committee further observes that the proviso, "to examine the working of the policy of the Government of India with regard to protection of industries since 1922", might be the main ground to stand upon, but we could not afford to forget that the fiscal policy of the Government of India under the British Rule was dictated by the British Parliament or the vested interests of British Industries. The traditions of *laissez faire* were carried into full effect and this is fully effected in the pronouncement of Lord Morley in 1910, "the state funds may be expended upon familiarising the people with such methods of production as modern science and the practice of European countries can suggest:.........but nothing should be done, calculated to interfere with private enterprise". My Committee considers that our present investigation must not be conducted on this ground. It with emphasis points out the apologetic language of Rahimtoola Commission which observed, "India for many years to come is likely to concentrate on the simpler forms of manufactured goods and these are precisely those in which the United Kingdom has the smallest interest". The minority report supplied the answer very loyally that "it was artificially created by a continuous policy of stifling, by means of forced tariff policy, the inborn industrial genius of the people (*Ibid*, P. 180).

The cotton excise duty was an instance of a handicap under which the industry has had to suffer over decades though condemned by English public opinion as late as 1917. London Times dated 5th March of the year observed, "the Indian cotton excise duty has always been politically, economically and morally indefensible". The Imperial Preference or the Ottawa Agreement arises from the anxiety of getting competition from India in overseas market, specially in cotton and irons.

The Committee observes that it is not free to offer its suggestions in the new set up of independence as it has to take account of the "acceptance of the commitments made in the HAVANA CHARTER on World Trade and Employment". The Committee only begs to re-state their answer to your question 93, "undeveloped countries like India and others might very often feel hampered if all the conditions laid down in Chapter IV of the Charter be carried out with precision".

Devaluation of our currency in the interval period has introduced another problem which my Committee thinks can not be left out of our consideration. It is to be specially remembered that we are living in a period when there is no free movement of gold, and consequently moving in no fixed international market, we have had to depend upon the old system of bartar under the glorified name of managed currency. If so, the old slogans of political economy must be examined in modern light with sufficient margin for their avoidance and modifications. The enviable position which India earned during the World War II, from a debtor to a creditor country has been changed or is on the point of

being changed. Here, of course, the *status quo* of 1928 is coming back with the added disadvantage of an unbalanced budget mainly due to excess of imports over exports. Our purchasing power for foreign currency would be jeopardised when the credit balance in sterling securities would expire. My Committee further observes that our suggestions would be tinged with certain amount of imperfections if we fail to implement the present day Indo-Pakistan trade relations. The Fiscal Commission of 1922 suggested for an undivided India, which possessed unquestionable monopoly in jute, tea, mica and partial monopoly in manganese. The said Commission worked under the fostering care of British Bureaucracy which received its directives from the British Parliament. The present set up finds us in a country which is independent, but linked up with U.K. in monetary ties and it has placed us under a condition when our trade conditions have been reversed, that is, excess of imports over exports. We have to manage excess imports under a world wide tight monetary conditions, almost losing half of our world's monopolistic condition in jute and about to lose in tea due to China's reawakening and with a serious problem of shortage of food, variously calculated and averaging five million of tons per year saddled with an increasing population at the rate of half a million.

My Committee therefore expects that the members of the Commission should grant it a license to examine the references in the context of the new environment, ignoring it would mean ignorance of real situation.

My Committee would like to remind the members of the Commission the two glaring characteristics, the phenomenal poverty of the people and the potential resources. The quarterly Review of April, 1917, rightly observed, "if the wealth of India be evenly distributed would not suffice to provide the population with the necessities of bare existence". The intervening period of three decades have only intensified the situation by an increase of 15 crores of population and a currency inflated to 400 times. The needs of the people could not be met as ports are closed and internal productions are daily coiling into stricter grasp due to monopoly position. With the withdrawal of British or foreign capital from India since the last few years, Indian finance capital is getting control over industries. Dr. Lokanathan observes (*Ibid*, "Industrial Organisation in India" Pp. 225, 1935 Edition), Finance, instead of being the handservant of the industry has become its master. The result has been the handing over the industry to a group of individuals, not because they are well versed in the trade, but because they have the adequate finance to help the industry. The Commission may remember that India has had never any industrial capital properly so called, the initial capital to tap the resources of the country came from England through the Managing Agency System, and hence it may be called mercantile capital. In India, grew up a class of financiers who earned fortunes from the Stock Exchange, and with the acquirement of independence, these people have got full control over the various industries.

My Committee, could not submit their views on the first part of the questionnaire due to illness of our secretary and now it offers their suggestions in the memorandum.

Questionnaire

PART I

SECTION—A(I)

The population of India dependent on agriculture was 35 per cent. in 1835, it rose to 65 per cent. in 1872 and to 75 per cent. in 1940. The fiscal policy of the last century coupled with the British mercantile policy, the vocational eqilibrium of India was very much disturbed. Due to compulsory character imposed upon us from outside, agriculture industry in India was never a prosperous enterprise. The future agricultural policy must be directed to the satisfaction of the internal needs in the shape of food and other primary products. The large scale agricultural operation for raising oil seeds of all kinds to build up new industries like paints and varnishes must be conducted on a corporate planning on national basis instead of as an enterprise on profit taking venture.

The outbreak of the war in 1939 recognised the importance of agriculture in India with its vast possibilities. In pre-partition days of India, India enjoyed a world monopoly in jute. In cotton, her position was next to that of U.S.A. Within the course of last two years, that is, since the days of our independence, we have now to face serious competition from Pakistan. Admitting that 40 million acres of fallow land might be improved upon and our Indian Union would again be self-sufficient in her raw materials, it is now desired that there must be a complete halt on the exportation of raw jute. As to cotton, in pre-partition days, about 40 per cent. of our total production was absorbed by our mills. The future fiscal policy should so directed that Indian mills must get their supply and consume and so long India is not self-sufficient, all export of cotton from India to outside should be stopped. Next arises the question of competing the world market. In jute, our factories might still remain in virtuous monopolistic condition for some years. But in cotton we might lose our hold on international market. The policy of the Government of India thus must be directed to foster these two crops by bonuses to the agriculturists by way of encouragement. Following the introduction of protection, sugar cane industry made enormous progress, outstripping even the annual consumption of the country. Modern plants now established all over the country are ensuring production with a potential capacity far in excess of our requirements. Tobacco industry of India is not well developed. There is ample scope for improvement in the quality of Indian tobacco. Among the plantation crops, tea is most important. It is to be remembered that during the war years, India virtually dominated the world market of tea due to her monopolistic position. With China coming back to her normal life, the industry has to face serious competition from that side. Our policy for future should accordingly be guided.

In the context of world events, we have to change orthodox nature of our agriculture, that is, from mainly arable lands to farming and gardening along with it. In pre-war days, India had the largest number of cattle, due to indiscriminate slaughter, the number has been much reduced, no statistics, being available, we might presume that the present number is not sufficient for our purpose. We need cattle both for our fields and also for milk production. The grow more food campaign started during the war years failed not because, the producers were unwilling, but because, the more production scheme could not be carried on efficient lines. It is to be remembered that the doctrines of free trade and international interdependence based on the free trade theory adumbrated by Adam Smith and Ricardo has been thrown to the winds. Even Great Britain, after the First World War, has been trying to make herself self-sufficient. Her attempt to secure food and raw materials through imperial preference, having failed, she is now installing her agriculture on intensive basis. Most of the war devasted countries of Europe are attempting to make themselves

free so far food question is concerned. The future policy of India must be framed from this view point. In past years, Indian agriculture was reduced to the position of serfdom to supply food and raw materials to Great Britain and to other European countries in exchange she received her requirements in manufactures. Indian industrial policy is indissolubly linked up with agriculture. Our future agriculture policy must be carried on an enterprise basis, with modern equipments on an intensive scale on vertical lines, gardening, farming, dairying all combined. Curiously enough, over a period of thirty years or so, during which density of population increased steadily and the price of land rose high, the size of our culturable waste did not shrink. The partition of India requires urgent Government attention both for food and commercial crop to this direction.

Mechanical farming is not the need of India as it would virtually create another menace in unemployment. But the system of farming must be improved on co-operative farming basis on an intensive scale with the help of modern fertilizers and with easy facility for marketing eliminating all middle class dealers between the consumers and the actual cultivators. The two world wars have improved the lot of our cultivators. Previously, they were hopelessly in debt, and all agricultural holdings were run on subsistence basis. Now we come to long term agricultural policy. Due to food crisis and shortage of raw materials in jute and cotton, India of to-day apprehenses a total breakdown of the whole economic system. To improve the situation, we need two fundamental principles, (1), a clear conception of the aim (aim) behind the policy, (2) a long term policy to implement the same, if need be, through revolutionary changes. In our Indian life, agriculture has occupied a prominent place, for food, revenue and also for raw materials for our industries. If so, the same needs are still more urgent. Three courses are open to us, to regard agriculture as the main source of national strength, or to discard it altogether and to embrace industrialism for future goal, or to accept it in terms of self-sufficiency. My Committee considers that in our long term agriculture policy, we should link up the first with the third. So, we should not shrink even to offer direct subsidies if the urgency of the case requires. Nature has endowed our country with variety of climates and soils and we have to utilise these to raise our food and raw materials for our industries. So we have to aim at a class of commercial agriculture creating a price structure depending upon the international market and not on the home market as had been the case in the past. Our present agriculture position has been made so complex by the last Government who dragged our home market into the world market without giving it time for preparation. Our millions died for food to meet the balance of trade in international transactions.

The present day importance of food problem has drawn us into the vertex of world prices and unless we can improve our food position to make us self-sufficient, my Committee thinks that the progress of India in Industrial lines would be stopped for ever. My Committee very painfully points out the need of importing foreign dairy products as our subsistence when we have had sufficient field for producing them within our own country. My Committee therefore suggests that these products should be imported unhampered for the time being as we cannot go on without them unless we intend to injure our health. But sufficient bonuses must be offered to our producers of home so that we might be self-sufficient at the present competitive world market rate. If there be no duty, the Indian production when sufficiently raised would sell at the world rate and still it would be cheaper as it would not have to pay the freight charges.

Granting that our long term objective is self-sufficiency in agricultural production, our next attention is to be directed towards its practical realisation. This problem of agricultural cannot be solved by agriculture alone. The

economic life is an organic whole. The ill in one part naturally affects another part. So industry and agriculture are co-related. "Both in turn are dependent upon a well planned and well organised banking and currency system as well as efficient transport and communication facilities." The type of agriculture we aim at to establish in future with the help of State regulation of production is a public utility service. My Committee is quite sure that this arrangement could easily be effected without any unnecessary disturbance in our social life. The planning of agricultural production must be linked up with corresponding industrial production and these two again should depend upon planned currency and credit organisation. The first item in the planning must be the ascertainment of our food requirements of our population on a regional allotment basis neglecting all provincial autonomy considerations. The next aim should be an international marketable, surplus of commercial crops after meeting the needs of home industries. Scientists should be employed to advise the agriculture department regarding erosion, fertilisers, crop diseases and other co-related matters without which agriculture on intensive scale would be an impossibility. State susceptibility in this respect must be fully eschewed in the context of world events. History has conclusively proved that private enterprise in agriculture is a failure. If it was true in America and modern States of Europe, why this truth should remain a taboo in our system of agriculture.

Questions.

1. This has been fully answered in the preamble and the preliminary discussion that follows it.

2. *Production.*—On Public Utility Service basis Field operation will be conducted on co-operative farming lines, Management must be conducted on business enterprise basis with sufficient bank facilities and care must be taken that Production must not be scraped as waste to avoid controls and Income-Taxes.

Consumptions.—The first aim should be national self-sufficiency on minimum cost on utility basis. The surplus amount might be marketed overseas with whatever help it needs from the State. Remembering that agriculture is one which obeys the law of diminishing returns, its production should be stopped as soon as the least sign of it would be visible. But as regards domestic consumption is concerned, losses should be incurred to attend the standard required by the Nation.

International Trade.—Part of the answer is in the part 'Consumption'. Articles in which we have monopoly must be organised from the view of getting the maximum profit. For the time being, we would admit Cotton, Jute, Betel Nut, Red Chillies, duty free. But when we will reach the target, our tariff would be arranged to get the best and largest market.

3. It is not possible to estimate the future at present.

4. *Basic Improvements.*—Full protection to our raw materials till they are fully utilised for our maximum home production. To import raw materials duty free for the same purpose, including betel nut, dairy products, red chillies, Plastic Composition. All Mines should be conducted on not full exploitation basis but they should be worked out in along with other by-products.

5. Since 1922, a complete disintegration of old economic system has taken place. The changes which India experienced during this period is commercial rather than industrial. Large amounts of British Capital were attracted to India. The leading cotton mills of Bombay paid 120 per cent. by way of

dividends. The reports of 41 British controlled jute mills with a total capital of £6 million showed profits of nearly £23 million, in addition to £19 million carried to reserve fund. (Kate Mitchell—p-284). From 1922, the predominant character of Indian Tariff Problem has been Imperial Preference. This gave British products an advantage over both non-British and Indian products in the Indian market. In 1932, under the Ottawa Agreements, Imperial Preference was thrust upon India in the face of adverse vote in the Assembly. During the period of 1929-33, the value of Indian exports fell from 339 to 135 crores; the value of imports 260 to 135 crores. Miss Kate Mitchell remarks, "this gold drain from the past savings of the masses of Indian peasantry meant a still further impoverishment of the Indian market and a corresponding depression of Indian industry."

6. (i) Paper, specially in newsprint; dairy products, Heavy chemicals, and soap industry.

The capital must not be mercantile capital. A certain provision be made for the Insurance Companies to lend the Industries.

7. So far the present outset is concerned, India is specially fitted for small industries. Every village in pre-British days was a self-sufficient economic unit. Indian exports consisted of fashionable fabrics and wares. The importation of cheap machine-made goods from the middle of the last century created a full economic disintegration. Indian agriculture lost its balance in village industries. Her agriculture conducted on subsistence basis drove the country to verge of slavery. Even to-day Indian labour employed on large scale industry is only 10 per cent. against 90 per cent. engaged in cottage or in small scale industries. Another important feature is that indegenous Indian capital is *limited*. This small domestic capital naturally seeks employment in within the villages in small scale industries. Our Indian peasantry has ample leisure.

Small scale industries thus can profitably employ farm hands in their off-period by which both the industries might help each other. The transport charges may be minimised if our villages can supply all the agricultural implements locally and be in position to mend them too when out of order. Moreover, machines in India are costly, but labour is cheap, this consideration is alone strong enough to support cottage industry. Present day exchange difficulty can easily be passed over if we can make ourselves industrially self-sufficient within our own boundaries. We give a list of cottage industries hereunder which can profitably be undertaken at once.

Builder and Domestic.—Hinges, Door Bolts, handles, screws, bolts and nuts, locks, hasper, staples, nails, cooking utensils of aluminium, brass, copper or iron, razor, blades, knives, forks, pen, scissors.

There should be a perfect protection under a strong protective tariff.

Small Tools.—This is a sphere, the development of which is essential. The items are:—Hand saws, Pincers, spanners, Wrenches, and the like Metal Working Tools: The Ordnance factories should be re-organised to undertake this class of work and sufficient protection must be accorded to make the country self-sufficient under this head.

Asbestos.—Asbestos rope and asbestos boiler lining compound.

Glass Ware and Abrasives.—Glass Ware particularly for glazing dwellings and domestic drinking glasses.

During the last century, uneconomic urbanisation has taken place and excessive ruralisation has made the agriculture situation grave rendering the whole country malarious and uneconomic.

It is to be remembered that the craftsmen and the artisans had their place in village economy where they exchanged their products for food and raw materials. The restoration of cottage industries would relieve the pressure of population on land and capital bringing back the balanced economic position in our body politic.

8. The interdependence of the two would increase the efficiency of each other. Where large industries are established, small scale industries might meet the domestic needs or be engaged in by-products.

A (II)

9. All the three as the circumstances would warrant. This has been argued.

10. Ready made cloths, Indian curios, Indian arts and toys, Indian silk, Indian paints and Indian brass wares, ceramic goods, cutlery, wire-netting, expanded metal, scales etc.

11. This should be considered from another view-point. Our member-firms, who get supply from big iron industries for small tools etc., are needlessly suffering. The big industries themselves enjoying the benefit of protection demand fantastic prices and fantastic conditions which are hampering the small scale industries. So, my Committee considers that big iron industries should produce rails, fish plates and so on but they should produce sufficient raw materials for cottage industries as enumerated above.

12. (a) For raw material, the Government should take particular care.

(b) The Government technical Schools should supply the technicians. In the matter of recruitment for training technical Schools boys of the Particular Craftsmen should be given preference as has been done in the School at Jhargram.

(c) On Guild basis.

(d) Small and locally conducted under the supervision of the master-craftsmen.

(e) Locally, if possible and supplemented by village co-operative Banks and block capital of Insurance Companies.

(f) Co-operative basis with Government help. If it of international market, through our foreign consuls.

As for any other assistance, the industries themselves would apply and special eye should be kept that there must not be any competition between it and the large-scale industries.

SECTION B.

My Committee here gives a general statement of conditions under the recommendations of the Fiscal Commission of 1922 and points out the effects produced under some major industrial heads. The only sound basis on which India can demand protection is the claim for self-sufficiency. It is to be remembered that international commerce between nations that are equal in status, enjoy equal opportunities of making free contracts, that exchange raw materials for finished goods. Protection is the assertion of the principle that the State is not for mere police work, it exists to improve the living conditions of individuals. If so, my Committee points out that undilutated patriotic protection given to some Indian industries has not been of any fruitful result; rather they are now proving a menace, and it must either be modified or hedged in by conditions so that its utility might be felt.

India has two specialities. It is a country which possessed its balanced economy agriculture versus cottage industry which rendered the country totally self-sufficient, as would be quite evident from the early despatches of the East India Company who failed to dump any English article in exchange for the products of the country. The second special feature is that it is a country of small capitalists. I mean Industrial capital of India was never very big. Its merchant capital or finance capital were of considerable amount. That is why Indian merchants whenever they invest any capital, they always expect big turn over per hundred and not big turn over on the gross amount. As we have noted above that after the first World War, India was fully supplied with both Indian and foreign capital, because the returns were fabulous. After the second War, Indian industrial capital is not forthcoming only because the capital is either mercantile or finance which expects big percentage and failing to get that amount it is coiling under horizontal trust on monopolistic basis to get the greatest profit at the cost of the country. My Committee gives some instances below.

Sugar Industry.—The sugar industry applied for protection in 1930-31. The second sugar tariff board stressed the need of manufacturing power alcohol and also rationalisation. Within five years, from the date of protection, the industry made immense progress and became self-sufficient. In order to stop competition, due to the fall of prices in sugar, the Indian Sugar Syndicate was formed in 1937 among 90 Mills. The Syndicate approached the Government to curtail production to overcome internal competition. The Governments of U.P. and Bihār made it compulsory for every mill to have a certificate by the Sugar Factory Control Acts and this license was issued only to the members of the Syndicate forever stopping competition. The enviable position of the industry stands to-day as a menace to the country. My Committee thinks that sugar now must be produced along with power alcohol on competitive basis including external market not only for home market but also for overseas.

The Cement Industry.—The industry has made phenominal progress since 1925, when its output was 360,000 tons and in 1937-38, it became 1,16,91,000 tons. The various cement companies merged into "Associated Cement Company Ltd." in 1936. In the boom of 1936-37, several new companies were floated, the biggest being the Dalmia Cement Company Ltd. Then A.C.C. and the Dalmia Cement Company came to an agreement preventing competition. In order to run the industry on monopolistic basis, Cement Manufacturer's Association was formed. The Cement Marketing Company was formed to regulate sale on a quota basis for the member companies. Thus protection enabled them to put on a clog to increasing returns and competition.

Cottage Textiles.—Buchanan states—"India ranks fifth in the number of spindles, fourth in the quantity of raw cotton, third in the number of persons employed." A large amount of capital has been employed in the cotton than in any other factory industry. This industry now stands in a dominating position due to the sacrifices of the masses since the days of Swadeshi 1905. It is now desirable that this industry should meet the demand of the home market receiving a reasonable amount of profit which must be considered from industrial outlook and not from financial point of view. Failing this, partial opening of Port is needed.

Salt.—Port must be opened, otherwise it would also result in trust.

Iron and Steel Industry.—The iron and steel industry was the first to claim protection. The principles on which duties were imposed the difference between the C.I.F. rate and the Indian manufacturing cost. Since the outbreak of the Second World War, the iron and steel industry, being the key industry, has received enormous favouritism from the Government. The industry must be asked to rationalise in such a way that it would increase its product not only

to make the country self-sufficient but for overseas market also. But as we have stated above that the industry must restrain its activity which is to give factory maximum output; it should not confine itself to goods which we have named before.

The Paper Industry.—Protection is still needed so far newsprint is concerned.

The Match Industry.—Taking advantage of the protection, a gigantic Swedish Combine has now established itself in India. This Trust has established itself solidly and it dominated the match industry in India. The Western India Match Company is merely the Swedish Company under a new name working as a public limited Company. In ten years, about 30 Indian factories had to be closed down, and 17 of them being in Bengal. My Committee thinks that protection for this industry should at once be withdrawn, because the Indian producers, who wanted it, being not in existence.

The Chemical Industries.—The question of protection was referred to in 1928-29. In the interests of Imperial Chemicals Ltd., the protective tariff is not necessary. Of course, the present war has opened up vast opportunities for the development of our chemical industries. For this view, foreign internal competition must be eliminated. Our heavy chemical industry is only in its infancy. Its development needs a planned policy. It is desirable to develop an all round chemical industry, even if we have to import some of the raw materials from abroad.

The Cinematograph.—Recently, the industry has made immense progress. It is high time for our Government that they should altogether put sufficient protection so that no foreign picture films be imported to be shown in our show houses. In the meantime, the Government should try to produce raw materials within the country and so long not possible to admit them duty free. The other industries which require protection are Cycle, Tanning, Motor and Airplanes.

SECTION—D

My Committee fully agrees with the Government Policy that a prudential control must exist so long we can not go back to Gold basis in external transactions. So my Committee suggests that we must aim at self-sufficiency. Our International Trade must be conducted, whether uni-lateral or multi-lateral, on Gold exchange basis. This will serve to stabilise our currency both internally and externally on parity prices basis, removing forever the fear of securing foreign currency. To do this, we have to open our Ports to receive gold and to conserve our own gold production.

So long the system of granting quotas would remain in vogue, my Committee thinks the Government should take into consideration of the unbalanced traders, uprooted due to the partition of the country. They should not be treated as strangers to trade, if they could prove that they had sufficient experience in the line or lines they apply for.

As to export control policy, my Committee thinks that the Government must keep a vigilant eye. The only one thing my Committee wants to point out here is the injustice which is being done to the Port of Calcutta, the first one, being in kind. In the name of giving to some, chance, it would not be prudent to divert Bengal Jute to other Ports, and if new hands are to be favoured over the old Shippers, many new firms with sufficient guarantee of business must be given preference over others who deal in many commodities. Our member-firms in Jute suffer because they are new, though financially very sound and on mere technical ground their contracts were refused. Sufficient protection and care are needed in this direction.

PART II.

We have submitted our answers on the questions. Still my Committee desire to point the following facts for the remembrance of the Commission.

The Bretton Woods Conference held in July 1944 suggested United Nations organisation in Banking and monetary affairs after the war.

The United Nations Charter, June, 1945 in chapter IX—Suggested International Economic and Social co-operation. "With a view to the creation of stability and well being, the United Nations shall promote higher standards of living, full employment and conditions of economic and social progress and development. In the White paper of the Department of State Washington, proposals for consideration by an international Conference were drafted, in November, 1945.

Havana Trade Conference in 1948 only ratifies the schemes. My Committee only suggest that these should not be another snare to tie us with the economic wheels of Anglo-American economic imperialism.

JATINDRA NATH MITRA,

Secretary.

Hindusthan Chamber of Commerce,

14/2, *Clive Row, Calcutta.*

Replies to Part II of the Questionnaire by the Hindusthan Chamber of Commerce, 14/2, *Clive Row, Calcutta.*

Question 89.—In the present day economic set-up, when there is no free movement of gold and no fixed international monetary market, it is the only ideal condition under which an equilibrium of international trade and employment can be brought about, is the considered view of the Chamber.

The Committee further add that it is a bitter experience that U.N.O. is failing properly to safeguard the interests of the weaker nations and this also being a bye-product of the same, the Committee only suggest that proper and rational working out must be provided for.

Question 90.—Chapter III if sincerely executed would be able to promote world wide economic development, not on the basis of Riscardian Theory of Free Trade, but it must be construed more on the basis of scientific protection and national efficiency and maintenance of parity of prices internally.

In case of India, full scope should be given to article 14.

Question 92.—The terms so far laid down are not disadvantageous, but a very liberal and friendly view must be taken if India is to be well equipoised in her international trade relations.

Question 93.—The Committee could not subscribe to all the policies. The whole system of preference, trade agreements etc., have been dealt with in a very rigorous way. Undeveloped countries like India and others might very often feel hampered if all the conditions laid down here be carried out with precision.

Question 95.—The Committee consider that it is impossible to guess any. Practical working out would be real test.

Question 96.—The Committee think that general provisions are alright.

The Mahratta Chamber of Commerce & Industries, Poona.

The Committee of the Mahratta Chamber of Commerce and Industries have duly considered the Part II of your Questionnaire on the above subject and have desired me to address you as under:—

In the opinion of the Committee it will not be proper to consider the question of ratification of the Charter until and unless your commission has examined the question of proper fiscal policy for the country in all its aspects.

The Committee are of the view that if India were to commit to the Havana Charter in advance, the scope of your Commission's work will be circumscribed by its provisions. As a result, a free and independent recommendation of a proper fiscal policy from a national point of view will be an impossibility.

Further the Committee of my Chamber think that the question of securing one of the eight permanent seats in the first Executive Board of the I.T.O. is of minor and absolutely secondary importance in the context of a prior, full and proper consideration of a right fiscal policy for India. The prior formulation of fiscal policy is far more vital than the doubtful utility of the international prestige that the country may attain by hastily ratifying the Charter under reference.

They, therefore, earnestly request that the above view which raises a fundamental issue should be duly considered by the Commission, while formulating their final findings in the matter.

If, inspite of the above considerations placed before you, your Commission decide otherwise, the Committee of my Chamber have following views to forward regarding the questions pertaining to the Charter:

A perusal of the Havana Charter, reveals that though it incorporates some improvements in the original "Proposals for expansion of World Trade and Employment", initiated by the United States Government in 1945, still the Charter remains most inadequate for the requirements of an economically backward and under-developed country. The Charter has been formulated in the background of the requirements for the development, growth and expansion of world trade from the point of view of an economically most advanced country like the U.S.A. It is felt that this eagerness of the U.S.A. is almost on par with that of England for free trade in the 19th century. The Committee of the Chamber would like to note this, their general observation, before they proceed with further remarks.

The basic purpose and objectives underlying the Havana Charter are generally unexceptionable. Difference of opinion, however, arises on a detailed consideration of the various Articles of the Charter. The provisions and safeguards laid down in the Charter for the economic development and reconstruction of a backward and under developed country like India fall far short of the latter's requirements.

The automatic approval of the I.T.O., to restrictions, which India may decide upon to impose for protecting her industries should not merely extend to those industries established during the period from January 1939 to 24th March 1948 or to those engaged in the processing of domestic raw material or of the bye products of domestic industries; but should extend also to all restrictions designed to protect or assist all industries established for the exploitation of primary commodities, minerals and other natural resources irrespective of their date of establishment or their employing higher technical skill.

The word processing as interpreted in the Charter is most restrictive and narrow and is very inadequate from the point of the requirements of an economically backward country like India.

Further, the procedure laid down for securing the I.T.O.'s sanction to the grant of protection or assistance to industries not covered by exceptions is not only dilatory but makes the contemplated measure hinge upon the votes of other countries some of whom may have conflicting interests. India's all out effort for the rapid industrialisation of the country, therefore, will be hampered, if India were to adhere to the provisions of the Charter in this behalf.

While the broad lines of the commercial policy as set out in the Charter are generally acceptable, it however does not satisfy the requirements of India. The Committee of the Chamber feel that India will have to resort to quantitative controls of imports for some time to come, with a view to protecting some of her industries. And since the Havana Charter is to be ratified in to it is feared that such action on the part of India will not be permissible.

As regards the conditions proposed for the continued employment of existing foreign capital and new capital investment, the same appear to be fair and there seems to be sufficient latitude given to member countries to persue their respective national policies in that respect.

As for the concessions granted and received by India under the General Agreement on Tariffs and Trade, the Committee of the Chamber feel that the same could have also been effected even by way of bilateral agreements.

In conclusion, the Committee of the Chamber once more reiterate that unless a right fiscal policy for the country has been evolved and unless the provisions of the Havana Charter examined in the light of such fiscal policy, India should not hastily approve the Charter.

The Indian Merchants' Chamber, Bombay

I am directed by the Committee of the Indian Merchants' Chamber to refer to the Commission's Letter No. 1-Fis./A(5)/49, dated the 25th June 1949, forwarding a copy of the Questionnaire issued by the Commission and desiring the views of the Committee on the scope and purpose of the future fiscal policy in general and specifically their replies to the questions raised under different sections of the Questionnaire.

2. The need for formulating a fiscal policy appropriate to the post-war needs and conditions with an adequate machinery for implementing it was clearly recognised in the statement of Government's Industrial Policy published in 1945, and the same was re-affirmed by the Industrial Policy announced in April 1948. The terms of reference as stated in the Resolution No. 34-T(37)/48 require the Fiscal Commission to examine and review the working of the existing policy of the Government of India with regard to protection to industries since 1922, when the last Fiscal Commission laid down the principles popularly known as the policy of 'discriminating protection'. Besides, the Commission is also to examine the question of Commonwealth Preferences and their effects on Indian trade as well as the desirability or otherwise for India to undertake international obligations of the type implicit in the General Agreement on Tariffs and Trade and the Havana Charter of the International Trade Organisation. In the light of this, the Commission has to make recommendations as to the future policy which Government should adopt in regard to protection to and assistance of industries, having due regard to the short-term and long-term aspects of the problem and the machinery required to implement the policy formulated for the purpose.

3 At the outset my Committee would like to emphasize that it is essential to include such vital subjects as the effect of the existing structure of taxation on industry and the place of foreign capital *vis-a-vis* the fiscal policy within

the scope of the enquiry entrusted to the Fiscal Commission. It is difficult, however, to state from the wordings of the terms of reference as they stand whether the above two aspects are included or not. If they are excluded from the scope of the enquiry, my Committee are not aware of the grounds of such exclusion. For, in their opinion, this is a very serious omission, as the taxation policy of Government has a direct bearing and effect upon any scheme of rapid industrialisation and the success or otherwise of an appropriate fiscal policy will largely depend on how the tax structure is adjusted to the requirements of the industrial policy and programme. This has particular relevance to the existing state of our industrial development, in view of the fact that our present tax structure is so unbalanced and heavily pressing on our industries as to sap all initiative and business enterprise, reduce margin of saving and dam the flow of investment-capital. In order to emphasize the supreme importance of a balanced tax structure in relation to industry, it would be most appropriate here to refer to the disastrous effects of our existing tax structure which has contributed in a large measure, among other factors, to the industrial stagnation and recession in business activities witnessed today. In regard to direct taxation the record of increases in the rates since 1939 should reveal the degree of steepness of taxation and the consequent disappearance of profit margins so necessary for saving and investment. The increase in respect of income-tax and super-tax on companies and individual income-tax and super-tax has been by 100 per cent. and more. The tax burden on individual incomes has become so oppressive as to leave relatively little surplus for being ploughed back into investment and consequently there is little incentive to assume risks inevitable in fresh or new investment. This is revealed by the fact that while as a result of the Second World War, the national income of India has doubled in terms of money the yield of taxes on income has increased to nine times.

4. Secondly, on account of the low profit margins as a result of steep direct taxation, it has become almost impossible to raise capital for industrial and commercial projects, however sound and promising they may be. That means there is little scope for capital formation in the country at present, although the need for the maximum amount of capital formation was at no time greater for an economically backward country like India. It must also be realised that high income-tax rates while they may do some good when a boom is in its speculative phase are bound to injure the country's economy when a recession has set in. This is the phase the country has reached and the effects of the steep direct taxation are causing considerable harm to the whole economy including those belonging to the low income groups.

5. While the graduation of the direct taxes in India is almost as steep as that in the U.K. and a little steeper than in the U.S.A., Canada, Australia and other advanced countries and thus wholly unrelated to the infant stage of industrial development in which she still finds herself, the indirect taxes imposed by the Provinces and States without any regard to the effects or incidence of the Central taxes, bear further heavily on industry. There is not only no co-ordination of the policies pursued by Provincial Governments, but in certain respects they encroach upon the powers and militate against the objectives and policies of the Central Government. The sales-tax and purchase-tax imposed by the different provinces in their competitive struggle for tapping all sources of revenue have been largely responsible for fettering the progress in our foreign trade and industrial expansion. Over and above all these, the Octroi and Terminal duties imposed by the Local authorities have their own share in taxing industry. Thus, the existing tax structure which has admittedly been a lopsided one and unbalanced and wholly regressive in its effects on industrial development needs to be examined in all its aspects in relation to

the objectives of the appropriate fiscal policy that may be evolved. My Committee understand that Government are aware of the inequitable burden on the existing taxation on industry and with a view to adjust the same to the objectives of industrial policy have appointed a National Income Commission to go into the question of studying and estimating the national income of the country. However, they observe that unless the findings of that Commission are known and a suitable taxation structure is evolved with proper co-ordination between Central, Provincial and Local spheres of taxation, as not to impede the progress of industrialisation, it would not be possible to formulate an appropriate fiscal policy.

6. Another important aspect which seems to have been precluded from the scope of the inquiry by the Fiscal Commission is in respect of foreign capital. While it is true that the Government of India have already made a general reference to the question of participation of foreign capital in the Statement on Industrial Policy of April 1948 and that a further clarification on the same was made by the Prime Minister in his statement in the Dominion Parliament, my Committee are of the view that since the Fiscal Commission has been appointed for enunciating the long-term fiscal policy of the country, they should have been asked to make suitable recommendations after a thorough and scientific examination of the problem as a whole. It is readily accepted that the magnitude of the capital resources the country requires for implementing the diverse nation-building programmes of re-construction and recovery makes it inevitable that we should enlist the fullest co-operation of foreign capital, inasmuch as the flow of foreign capital would at the same time bring with it the requisite technical personnel and know-how and will also facilitate availability of capital goods and equipment. In this connection, the assurances given by the Prime Minister that there would be no discrimination of any sort against foreign capital and that no restrictions would be placed in the way of their making reasonable profits and on remittance of such profits abroad and that in the event of a compulsory acquisition of a foreign enterprise compensation would be paid on a fair and equitable basis go beyond even the requirements laid down in the Havana Charter. Whereas under the Havana Charter members are required to avoid discrimination as between foreign investments and the favourable treatment to national investments *vis-a-vis* foreign investments as such is not ruled out, Government have assured that there will be no discrimination between national and foreign capital once the latter is admitted in the country. This the Committee feel is not in the interests of the country.

7. At the same time, an assurance was given in the Statement of Policy that it would be necessary to carefully regulate the conditions under which foreign enterprise would be allowed to function. with a view to safeguarding the national interests and that a provision would be made as a rule that major interests in ownership and effective control should always be in Indian hands. However, certain categorical statements made by the Ministry of Industry and Supply have legitimately given rise to fears whether the full implications of the policy on foreign capital *vis-a-vis* the fiscal policy of the country have been properly assessed and realised. For example, the recent statement made by the Government that even in the sphere of protected industries 'when protection is conferred on a particular industry, all the units of that industry, whether Indian-owned or not, will be automatically entitled to claim benefits of such protection' raises certain very pertinent issues in respect of the grant of special assistance to enterprises, the ownership and management of which are essentially in national hands.

8. In fact, the interim and the re-constituted Tariff Boards in their examination of the claims of industries for protection have already raised this very

issue, in examining the cases of the Aluminium industry and the Motor-vehicle Battery industry. While recommending the payment of subsidy to the Aluminium industry, the Tariff Board observed: "*Prima facie*, it would appear anomalous that the Indian Government should pay subsidy to a concern, the major portion of the capital of which is held by nationals of other countries". (Page 25.) They, therefore, suggested that "it is also a matter for consideration by Government whether as a condition precedent to the grant of subsidy, the Company should be called upon to alter its constitution so as to vest the majority of share capital and the control into Indian hands within a reasonable period". (Page 25.) Similarly, the Tariff Board made the following observation in respect of the existence of foreign capital and enterprise in the Motor-vehicle Battery industry:

> "Protection o' an industry, whether through import duties or by means of a subsidy, imposes a definite burden on the community, which is justified on the ground that the development of the industries stimulates national enterprise, creates new opportunities for the technical training of nationals and provides profitable employment for national capital and labour. But the community cannot derive this benefit in full measure if the capital control and management of important units of a protected industry are held entirely or largely by non-nationals. In such a case, the protected industry does not become a national industry in the fuller sense of the term". (Page 23.)

9. Besides, my Committee understand that foreign concerns have already been allowed to establish themselves in the country, and the cases of some more are under consideration. In this connection, they would like to raise an important question as to whether the terms and conditions on which such foreign concerns are going to be allowed to be established in the country will be in keeping with the main point of the Statement of Industrial Policy, *viz.* that the major interests in ownership and effective control should always be in Indian hands. Both the Honourable Dr. Shyama Prasad Mookherjee, Minister of Industry and Supply, in his categorical statement to the Central Advisory Council for Industries and the Government of India in their reply to the Federation of Indian Chambers of Commerce and Industry, have made it quite clear that foreign capital will be treated on a footing of perfect equality in every respect once it is allowed to enter the country. Even as regards the principle enunciated in the Industrial Policy statement, *viz.* that the major interests in ownership and effective control should always be in Indian hands, the same now seems to have been given up. This implies a radical and a fundamental change in the Industrial Policy Statement of April 1948 and the repercussions of the same on trade and industry of the country are calculated to be very serious. My Committee would observe that the Fiscal Commission should seek clarification from Government in this regard whether special conditions would be laid down in the future to permit participation of foreign capital in the establishment of industries in India in consonance with the principle stated above. In regard to cases of industries where an exception may have to be made in the application of these conditions, Government should clearly specify the list of such industries. The issues raised above are, in the opinion of my Committee, of great significance in the context of our industrial policy and will have to be examined before an appropriate Fiscal Policy is formulated. They would, therefore, suggest that even at this stage it should be possible for Government to widen the terms of reference of the Fiscal Commission, so as to include in them the examination of the two important aspects, *viz.*, the structure of taxation and foreign capital.

10. Before proceeding to give detailed replies to the Questionnaire, my Committee would like to make their preliminary observations on the nature and working of the policy of discriminating protection and the need for a complete re-orientation in our Fiscal Policy calculated to encourage and promote rapid industrialisation to the fullest possible extent.

Policy of Discriminating Protection

11. It is significant to note that the Fiscal Commission of 1921-22, in spite of their observation that India is an agricultural country, which possesses undoubted natural advantages such as abundance of raw materials, ample potential supply of cheap labour and adequate sources of power for manufacturing, recommended the 'adoption of a policy of protection to be applied with discrimination along the lines indicated in their Report'. It was further stated 'that discrimination should be exercised in the selection of industries for protection and in the degree of protection afforded so as to make the inevitable burden on the community as light as is consistent with the due development of industries'. The formula on which the whole policy was based laid down the conditions which the applicant industry must fulfil before it can qualify for protection. The conditions briefly stated are as follows:—

(1) The industry must be one possessing natural advantages such as abundant supply of raw material, cheap power, a sufficient supply of labour, a large home market, etc.

(2) The industry must be one, which without the help of protection either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interests of the country.

(3) The industry must be one, which would eventually be able to face world competition without protection.

These three conditions taken together constitute the triple formula which the applicant industry has to satisfy so as to merit consideration at the hands of the Tariff Board and receive protection. The Commission also stated certain additional factors as strengthening the case for protection. Mention may be made of cases of industries with potential advantages of large-scale production, industries which may in course of time be able to meet the whole needs of the country or industries which are of strategic importance, essential from the point of view of national defence. In the case of the latter, it was recommended that industries falling within this category should be adequately protected irrespective of the general conditions laid down for the protection of industries.

12. My Committee are definitely of the view that the policy of discriminating protection as enunciated by the Fiscal Commission in 1922 proved to be disappointingly slow and ineffective, hardly appropriate to meet the requirements of industrial development of an under-developed and agricultural country like India. In support of the success and efficacy of the policy of discriminating protection, reference is sometimes made to the expansion of industries in India during the inter-war years. While it is true that industries like iron and steel, cotton textiles, sugar, paper, magnesium chloride, sericulture, gold and silver threads, artificial silk and cotton, artificial silk mixed fabrics received protection at various stages, it may be pointed out that during nearly 20 years of the operation of the policy only eight industries were developed or established under the shelter of protective tariffs. If a more liberal and vigorous policy were pursued, India would have achieved her industrialisation at a much faster pace and would not have been found unprepared as she was on the eve of the second World War. As compared to the remarkable

industrial progress achieved by countries like U.K., U.S.A., Australia and Canada, by resort to protective measures, the progress made hitherto in India cannot be described as a substantial achievement. In fact, in view of the halting and half-hearted nature of the protection given to various industries by Government, it will be more appropriate to say that if some of the industries were developed and stabilised during the period, it was largely due to the rising nationalist sentiment of the Indian people and the initiative and pioneering spirit of the Indian industrialists. The policy of protection played but a limited part, inasmuch as the protection given to industries was in a large number of cases essentially of a safeguarding variety. There are again cases of industries such as glass, cement, heavy chemicals, etc., which were denied protection on one ground or another.

13. It is a significant commentary on the pace of industrialisation during the inter-war period that on the eve of the war our industrial structure was found to be weak and ill-equipped inasmuch as even established industries, such as textiles, paper, soap, leather, etc., found their supplies of essential raw and processed materials and stores cut off on account of the war. Absence of chemical industries such as caustic soda, bleaching powder, soda ash, chrome, allum, etc., revealed the precarious nature of the country's dependence on such supplies from abroad. Nor had India developed metallurgical and other subsidiary and auxiliary industries which could meet the requirements of the established major industries. In spite of the progress of the iron and steel industry, it may be observed that the country had no capital goods industry at all, while its engineering industries were more or less in a rudimentary stage. One of the recommendations of the Commission related to the protection of industries of national importance and the development of basic industries. It is pertinent to note that no basic or key industry worth the name was developed during the period.

14. My Committee believe that an explanation for this state of affairs is to be found in the half-hearted and apologetic view of the Commission that 'India for many years to come is likely to concentrate on the simpler forms of manufactured goods'. The minority in their minute of dissent objected in a pointed manner to this view of the majority and clearly stated that the Indian opinion was unanimous and insistent on the question of intense effort at industrialisation and that a policy which was likely to make the Indian people concentrate their efforts for many years to come on the manufacture of simpler forms of goods was not likely to satisfy them. They further asserted that even if such a policy involved any risk to the immediate interests of the British manufacturers that risk must be faced. In the opinion of my Committee, the above view of the majority which was coloured by an undue solicitude for British interests throws sufficient light on the nature and character of the policy of discriminating protection and the manner in which it has resulted in arresting the industrial progress of the country.

15. Another factor responsible for slowing down the pace of industrialisation of the country was the 'infant' industry argument, which was recommended by the Commission and adopted by Government as a basis for the grant of protection. It clearly reveals how the theoretical postulates which the Majority report referred to with approval were mis-applied in actual practice, by the application of the restrictive principles of discriminating protection. While the Commission accepted the argument that an industrially backward country, full of industrial potentialities, can justifiably use protection with a view to meeting competition from industrially advanced countries, who have not only the initial advantages of an early start but also the advantage of established superior production technique, they failed to realize that the theory was applicable to a backward country as a whole and not to an isolated infant

industry. In fact, instead of recommending a bold policy of protection, which alone could bring about rapid industrialisation in a backward agricultural country, redressing the balance between agriculture and industry, the Commission recommended protection on the 'infant' industry basis, more appropriate for industrially advanced countries than for an under-developed country like India. This error, my Committee believe, vitiated the approach to the problem of Indian industrialisation and resulted in the piecemeal and restricted type of protection, as determined by the triple formula laid down by the Commission for the purpose.

16. The policy of discriminating protection again was based on a narrower and incorrect view of the development of industries, inasmuch as the Tariff Board worked on the basis of the theory that protection should be considered only for those lines in a particular industry which were already established in India and not in respect of those which being mutually inter-dependent were capable of being developed and should have been developed. During the course of their examination of the case of the steel industry, the Tariff Board stated that 'the policy of protection operates in three ways. It governs the selection of the industries to be protected; it limits the amount of protection to be granted; and within each industry it excludes from the protective scheme those products which are not made and are not likely to be made in India.' Thus, instead of taking a dynamic view, the Tariff Board seemed to adopt a static view of the need for protection and recommended protection only for selected products within each industry as is borne out by the cases of the paper and the steel industries. It is, therefore, not surprising that this narrow interpretation of the principles of protection resulted in the neglect of the allied branches of the same industry for want of sufficient encouragement and protection.

17. The inchoate and haphazard nature of the policy of protection is further illustrated by the recommendation of the Commission that as a rule the tariff protection should not be granted to new industries. This condition *prima facie* ruled out the case of potential industries, which could have been developed under the promise of a full-fledged scheme of protection. While in other countries which have achieved industrial progress, tariff protection as well as other measures of assistance have been freely extended to new industries either in the form of tariff duties or subsidies and quantitative restrictions as possible alternatives, in India this condition inevitably resulted in removing all incentive for the development of new industries and thereby hampering industrial development of the country. In the view of my Committee, to maintain that there is no need for protection unless there is something to protect is to betray a real lack of understanding of the essentials of industrial development.

18. It is further necessary to emphasize the safeguarding nature of the protection granted under the policy of discriminating protection. The inter-war period was characterised by great dislocation of foreign trade and widespread uncertainty in the industrial world aggravated by violent fluctuations in international currencies followed by devaluations and depreciations in the currencies of a large number of countries, resulting in the final climax of the great Depression. During this inter-war period which can be safely characterised as one of commercial warfare most of the countries resorted to the weapons of quotas, exchange controls, clearing and payment agreements and dumping. A country like India was inevitably affected by these disturbing factors in international trade and particularly dumping and other forms of unfair competition, which were resorted to by industrially advanced countries. The adverse effects resulting from dumping, unfair competition, discriminating monopolies and market gluts can be easily seen from the cases of the industries such as steel, cotton, woollen and magnesium chloride. While it may be

conceded that the cases of the sugar and paper industries fall in a separate category, my Committee maintain that the protection that was extended to the industries under the policy of discriminating protection was largely of a safeguarding variety and not of a developmental character. As stated by Sir George Rainy, the then Commerce Member, in 1930 the tariff had the limited objective of 'the preservation of the industry or an important section of it and not its ultimate development'.

19. My Committee, however, believe that it is in the conditions laid down by the Fiscal Commission and the application of the same to various industries which applied for protection that the retarding influence of the policy of discriminating protection is unmistakably revealed. The conditions for the grant of protection as prescribed in the Triple Formula were unduly restrictive in their scope and the procedure prescribed for the formalities connected with an inquiry into the claims for protection for any industry was dilatory and unduly meticulous. The Minority in their minute of dissent had clearly visualised the possible dangers of hedging in the main recommendations by conditions and provisos which were likely to defeat the purpose of the Fiscal Policy as outlined in the Report of the Commission. India with all the natural advantages which she possesses in respect of abundant supply of raw materials, sufficient supply of labour and a large home market would have easily attained an important place in the industrial world, if a bolder and a more liberal Fiscal Policy were adopted. However, the conditions which an applicant industry was required to fulfil before becoming eligible for protection proved to be unnecessarily stringent entailing considerable delay in giving effect to the policy of industrialisation. While accepting that there should be no indiscriminate application of the policy of protection, the Minority were justified in their legitimate fears that the type of protection sought to be applied with discrimination 'along the lines of the Report' was calculated to impede the industrial progress of the country. They, therefore, urged for an unqualified pronouncement that the Fiscal Policy best suited to India was Protection.

20. The Fiscal Commission laid down as the first condition that if the industry is to qualify for protection it 'must be one possessing natural advantages, such as an abundant supply of raw materials, cheap power, a sufficient supply of labour or a large home market. Such advantages will be of different relative importance in different industries, but they should also be weighed and the relative importance assessed'. It may be observed that the Commission did not specifically emphasize that the industry must be in possession of all such natural advantages, and they further stated that these advantages would be of 'different relative importance in different industries'. It was also stated that the successful industries of the world possessed certain comparative advantages, to which they owed their success. However, in actual practice in respect of several inquiries a rigid interpretation was placed on this condition, and as a consequence the claims of several industries, such as the glass industry, the worsted section of the woollen industry and the heavy chemical industry were turned down by the Tariff Board or by the Government. In cases where the Tariff Board took a more liberal view and recommended protection in spite of the fact that the condition in respect of raw materials was not fulfilled, the Government on a more rigid and narrow interpretation rejected the recommendations of the Board. Such a test when applied to an industrially backward country merely results in imposing unwarranted fetters on the industrial development of the country. In fact, my Committee venture to state that if such a test were applied in any of the industrially advanced countries, it would be extremely difficult to get an instance where a given industry satisfied all the tests imposed by the Triple Formula. It is well known that Lancashire developed an efficient cotton industry despite

the fact that England was obliged to import all its raw cotton from abroad. Likewise, for her textile industry Japan had to depend for the supply of raw cotton on India and the U.S.A. Besides, it is well known that jute mills in Dundee depended for their raw materials entirely on the raw jute imported from India. The establishment of a sugar industry in England and Rubber goods industry in U.S.A. are again instances of industries developed in spite of the fact that neither England nor the U.S.A. fulfilled the criterion of the natural advantage of raw materials. In spite of the condition of the availability of raw materials being not fulfilled by these countries, they have been able to develop not only very efficient industries, but have been in a position to compete successfully with other countries. In fact, if such rigid conditions had been imposed, countries like Britain, Japan and Germany could not have developed most of the organised industries which they were able to do under the shelter of a strong protectionist policy.

21. A reference to the cases of such industries as were denied protection on one ground or the other arising out of the conditions laid down by the Commission would make it clear as to how the rigidity referred to above has retarded the pace of industrial development in the country. The vital importance of heavy chemicals to the Indian economy can be easily appreciated by the fact that the products of this industry are essential to industries, such as the textile industry, the paper industry, the glass and porcelain industry, the rubber industry, and a number of other industries like soap, artificial silk, etc. After a very close and searching inquiry, the Tariff Board in their Report on Heavy Chemical Industry (1929) made the following observations in regard to the claim for protection to this industry:

> "We find then that the establishment of the chemical industry is of great national importance in times of war. It is also a key industry and provides a training ground for research, on which the success of so many other industries depends. In our opinion, the case for protection of the chemical industry rests primarily on the fact that it is an industry of supreme national importance, and even if the conditions laid down in para 97 of the Fiscal Commission's Report were not fulfilled, we feel that it would be impossible for us consistently with public interest to refuse the claim for protection of an industry, on which so many national activities depend both in time of peace and in time of war."

They further observed:

> "If the chemical industry now in its initial stage were allowed to disappear, there would be little incentive for many years to come to undertake the necessary investigation. In considering whether an industry possesses natural advantages, it is essential to take long views. To refuse the claim for protection of an industry because of the existence of difficulties which in the end may prove transitory may do irreparable damage to the future industrial interest of the country."

22. Considering the question of an adequate supply of raw materials, the Tariff Board observed that in the matter of raw materials, India is not unfavourably situated. It is true that Sulphur has not been found in any appreciable quantity in India, and in normal conditions must be imported. In this respect India is at no disadvantage as compared with most other countries, since Italy U.S.A., and Japan are the only countries having deposits of Sulphur. In regard to the case of an industry of national importance, the Board argued that 'economic considerations play a secondary part and the question of cost

of production hardly arises'. Further, in spite of these overwhelming arguments in favour of granting protection, the Board also suggested the possible alternative sources of supply of raw materials. Having been convinced of the importance of the heavy chemical industry from the point of view of the national economy, the Board recommended a very moderate scheme of protection and suggested various measures to remedy the defects of the industry. However, after a great deal of hesitation and delay, Government passed the Heavy Chemical Industry Act in October 1931, granting protection for a brief period of only 18 months and the duties on the expiry of the period were allowed to lapse without any valid reasons. The inevitable result was that the foreign concerns established in the country flourished without any fear of internal competition and an important industry was allowed to languish without any shelter of protection. The Indo-British Trade Agreement which established the principle of preference within protection further prevented an important indigenous industry from being fully developed in the country.

23. The case of the Indian glass industry again illustrates the rigidity of the conditions imposed by the Fiscal Commission and the manner in which the Government rejected the recommendations of the Tariff Board arrived at after a careful scrutiny of the various aspects of the industry. The Tariff Board while considering the first condition regarding the raw materials found that there were ample deposits of sand of the best variety, which could compare favourably with European and American sands and that they were quite suitable for use in the manufacture of glass. Only in one respect *viz.* Soda Ash, the country had to depend on imported supplies, inasmuch as the same was not manufactured in India in a finished form. However, in spite of the fact that the Tariff Board had clearly maintained that the dependence of an industry on foreign imports in respect of a single material was not to constitute a bar to protection, the Government thought it fit ro refuse protection on the plea that the glass industry did not enjoy the natural advantage in respect of raw materials, so long as it was dependent on imported Soda Ash. It may be observed in passing that the Government delayed their decision for nearly 3 years after the presentation of the Report. In fact, the vicissitudes of the glass industry in the country, throw sufficient light on the attitude of Government in regard to the development of industries, inasmuch as, in spite of the convincing case made out by the Board regarding raw materials, labour and large internal market, the Government considered that the glass industry did not satisfy the condition of discriminating protection, *viz.* in this particular case the absence of an indigenous supply of Soda Ash. Whatever assistance was subsequently given in the form of refunds of the import duty paid on Soda Ash was of a doubtful value to the industry.

24. It will also be relevant here to refer to the case of the woollen industry, particularly the worsted section, which was denied protection because the industry had to depend on imported raw materials. The Tariff Board in their examination of the case for protection of this section pointed out that the industry was in danger due to foreign competition and that it was in the interests of the country to protect the same. They had further stated that under normal conditions the industry would be able to face any competition from abroad, except perhaps from Japan who was in a position to dump worsted woollens in the Indian markets on account of the depreciation in her exchange rates. As in other cases, Government postponed decision on the Report of the Tariff Board for nearly 8 months and rejected the claim of the industry on the ground that the worsted section of the woollen industry did not satisfy the first condition of protection as laid down by the Fiscal Commission. This provides another instance of the manner in which the policy of discriminating protection was applied, so as to prevent industries from developing on the untenable ground that the raw material in respect of the industry had to be

imported. As against this, my Committee would only point out that several other countries like England, Italy and Japan have been able to develop the worsted section of the woollen industry, in spite of the fact that these countries had to depend on foreign supplies for their raw materials. Another interesting sidelight in regard to this industry was that during the course of the examination by the Tariff Board of the case of the industry certain important groups of the woollen mills, particularly dominated by foreign interests, refused to co-operate by refraining from tendering any evidence before the Board. This was used as one of the arguments by the Government that the recommendations of the Board did not apply to the industry as a whole, inasmuch as an important section of the industry had not submitted any evidence to the Board. On such flimsy grounds, an important section of the woollen industry was denied protection and exposed to the full blast of foreign competition.

25. While considering the condition of sufficient natural advantages, the Tariff Board on the heavy chemical industry aptly remarked that the matters referred to in the first condition are intelligible only with reference to the cost of an industry and the intention clearly is to lay down the general conditions under which reductions in cost sufficient to offset the advantages enjoyed by competing countries may be expected. Thus, the important question that should have been considered by either the Tariff Board or the Government before rejecting the claim to protection of any industry, should have been the cost of production of any industry, which would necessarily cover all considerations of natural advantages or the want of one or other of such advantages. However, as we have seen in several instances, on a narrower and more rigid interpretation of the first condition, several industries were denied protection, and as such industries which could have developed under a more liberal application of the conditions laid down by the Fiscal Commission were not allowed to develop with the help of protection. It may not be out of place here to quote once again the view of the Tariff Board on the Heavy Chemical Industry on this aspect of the question. "If the policy of discriminating protection were so interpreted as a condition precedent to the grant of protection, we have, upon a careful review of our inquiries during the last 6 years, no hesitation in stating that under modern conditions scarcely any Indian industry could fully establish its claims to protection".

26. The second condition, *viz.*, that the industry must be one which with the help of protection either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interests of the country, is merely explanatory of the principles of protection and as such should have had no place in the formula. In fact, to a certain extent it is inconsistent with the first condition. Perhaps, the implied object in incorporating the second condition was that only the cases of marginal industries which in spite of the benefit of natural advantages were not in a position to maintain themselves would be considered. The third condition, *viz.* that the industry must be one which will eventually be able to face world competition without protection is important, inasmuch as it emphasizes a necessary aspect of the principle of protection, that no industry which is likely to become a burden on the community should be protected except on broad national grounds. In fact, it should have been linked up with the first condition with the necessary proviso relating to the cost of an industry. It would be legitimate to expect that an industry which has the benefit of protection must be able to achieve substantial progress by reducing cost, resulting from improved methods of production, expansion in the size of operations and such other factors which contribute to economies in the process of manufacture. At the same time, it is necessary to bear in view an important difficulty which is likely to arise in respect of arriving at a proper forecast as to the future cost of production. However scientific and elaborate the method of estimating costs

may be, this part of the function of the Tariff Board is likely to remain more or less a guess-work as to the future, which is conditioned by a number of unforeseen circumstances over which the industry may have no control. While all the relevant factors may be taken into consideration, ability of the industry to face world competition eventually, without protection, should not be laid down as a condition precedent to the grant of protection. The case of the Magnesium Chloride industry, which was denied protection in 1924 on this ground but which on a subsequent review of costs and prices was deemed to be eligible for protection in 1928, illustrates the practical difficulties involved in the application of the above test.

Machinery and Procedure of the Tariff Board

27. As regards the machinery, procedure and formalities connected with the implementation of the policy of discriminating protection, several defects have been found in actual operation. The establishment of a competent and impartial Tariff Board is an integral part of the scheme of discriminating protection. According to the recommendations of the Fiscal Commission, the Board was to be a permanent body so as to secure consistent decisions and continuity of policy. Though in the earlier period the Board was more or less permanent, in course of time the Tariff Board as appointed by the Government of India became a sort of an *ad hoc* body. The Tariff Boards were separately constituted for each inquiry with specific terms of reference and thus the Government of India ignored the most important recommendations of the Fiscal Commission for constituting a permanent Tariff Board. Consequently, in spite of the best efforts on the part of the Tariff Boards to secure a consistency in decisions and continuity of policy, the objective of the Fiscal Commission was defeated and quick changes of personnel resulted in avoidable delays in completing the inquiries. Again, as the powers and functions of the Board were not defined in a statutory manner, there existed a great deal of scope for conflict in the interpretation of the principles of discriminating protection between the Government and the Board. This is clearly seen in the cases of sugar, woollen, glass and match industries, where the recommendations of the Tariff Boards resulting from a more liberal interpretation of the principles of protection were not found acceptable by Government. The Fiscal Commission had rightly suggested that the Tariff Board should have wider powers, but it is a matter of common knowledge that the powers of the Tariff Board appointed by the Government from time to time were strictly limited. The Board had no initiative and could only investigate cases of those industries which were referred to it by Government. Thus, the scope of investigation was limited by the terms of reference and the Tariff Board in absence of any power to compel the parties to produce the necessary information had on occasions to continue work on insufficient and inadequate data. The same difficulty has been experienced by the interim and re-constituted Tariff Boards, inasmuch as foreign concerns established in the country refused to supply the necessary information including their cost of production when asked for. It may be relevant to quote in this connection the observations made by the Tariff Board in their Report on the Dry Battery Industry (1947):

> "We have said in two of our recent Reports, on electric motors and machine tools, that the work of the Board is handicapped for want of powers enabling it to compel unwilling witnesses to furnish information essential to a proper understanding of the issues involved in a Tariff investigation, and this is the third case of the kind leading to the same conclusion. We, therefore, suggest that Government should seriously consider as to how this handicap of the Tariff Board can best be removed."

28. Another defect in the procedure relating to the applications made by industries for protection was that the said applications should first be submitted to the Commerce Department of the Government of India fully stating the case for protection. The Department would forward the applications to the Tariff Board for consideration only if they were satisfied that a *prima facie* case had been made out by the applicant industry for protection. This procedure inevitably resulted in loss of time and consequent dilatoriness. Besides, this also armed the Executive with powers to pre-judge the issues which could only be examined impartially by a Tariff Board. It is understood that cases of industries have been rejected by Government without referring the same to the Tariff Board. Such a practice naturally aroused a great deal of dissatisfaction and provoked serious criticism against unwarranted interference on the part of Government.

29. Again, the recommendation of the Fiscal Commission that 'the Government should publish the results of the inquiry promptly, whether it agrees with the conclusions of the Board or not' was, it may be pointed out, largely observed in its breach. Industries which were passing through serious difficulties and which, therefore, were in need of urgent assistance were made to wait by Government in respect of their decision for an inordinately long time in a state of animated suspension. My Committee feel that time is an important factor, where the industry is in need of urgent assistance and the manner in which the Government delayed the publication of the reports and their decision in regard to the recommendations of the Board were highly objectionable and vexatious. In fact, in an economic situation, subject to the constant flux of economic forces, many a time delayed assistance may prove to be useless. It is well known that in case of industries such as cotton textiles, sugar and salt, nearly 2 years elapsed between the date of reference and the final decision as to the action by Government. Again, the reports of the glass and woollen industries were published 2 years after their submission, with the ultimate anouncement to the industries that the Government rejected their claims to protection. Instances can be multiplied, but my Committee feel that the cases of needless and avoidable delay referred to above are sufficient to illustrate the indifferent attitudes of the Government during the operation of the policy of discriminating protection towards the fate of the industries.

Need for Reorientation

30. The object of my Committee in reviewing broadly the limitations and defects inherent in the policy of discriminating protection and the machinery of the Tariff Board constituted from time to time to implement the same, has been to emphasize the fact that the policy in force has failed to promote the cause of Indian industrialisation and, therefore, the principles laid down by the Fiscal Commission in 1922 need in the altered context of affairs to be completely overhauled and re-stated, to suit the needs and requirements of our industrial and economic development. While formulating such a policy, the Commission will also have to take into consideration important factors, such as the impact of war on our economic structure and the serious repercussions of Partition on our economy; for example, as a consequence of Partition two of our major industries, textiles and jute, have been seriously affected in respect of the supply of their raw materials, *viz.* cotton and raw jute, and from being an exporter of these raw materials India is now reduced to the position of a net importer. My Committee feel that the greatest need of the country is a new perspective and a fresh approach to the urgent problem of all-round industrial and economic development. It is a matter of common knowledge that the development of Indian economy has hitherto been of a lopsided character, involving undue pressure on agriculture, a burden which has resulted in the intensification of our

poverty. This excessive pressure on the land, it will be readily admitted, can only be relieved by a well-conceived policy of industrial development.

31. Government of India in their statement of Industrial Policy of April 1948 outlined their plan and programme of industrialisation and have accepted as their objective 'promotion of a rapid rise in the standard of living of the people, by exploring the latent resources of the country, increasing production and offering opportunities for all for employment in the service of the community'. For achieving this end, emphasis is placed on 'the need for a dynamic policy which should be directed to a continuous increase in the production by all possible means, particularly expansion of production, both agricultural and industrial and in particular the production of a capital equipment of goods satisfying the basic needs of the people and commodities, the export of which will increase the earnings of foreign exchange'. The policy also outlines a scheme of industries, such as arms and ammunitions, production and control of atomic energy, and the ownership and management of railway transport, which are to be the exclusive monopoly of the State. Government further will be exclusively responsible for the establishment of new undertakings in respect of industries, such as coal, iron and steel, aircraft manufacture, shipbuilding, manufacture of telephones, etc. inviting co-operation of private enterprise, wherever necessary. There are again certain basic industries which, under the planning and regulation of Government, must be developed in the national interest. These comprise industries such as automobiles, tractors, prime movers, electric fertilizers, electro-chemical industries, non-ferrous metals, sugar, paper and newsprint, etc. Since Government policy envisages the State playing a progressively active role in the development of industries, the industrial field left open to private enterprise and initiative has become substantially circumscribed and limited. Finally, the policy recognises the due importance of the development of cottage and small-scale industries, which should play an increasingly important role in the national economy. The plan and programme of industrialisation outlined above are sufficient to indicate the tremendous leeway that India has to make up in the direction of industrial development. This, my Committee believe, can only be achieved by a comprehensive policy leaving the whole field of industrial development, barring defence industries, to private enterprise with the necessary active asistance on the part of Government. They note with some measure of satisfaction that Government have given the necessary assurance that the tariff policy of Government will be designed to prevent unfair competition and to promote the utilization of India's resources with a view to achieving rapid industrialisation of the country.

32. Before outlining the general nature of the new fiscal policy that would be necessary for achieving the task as mentioned above, my Committee would like to refer to certain important features which are likely to influence the formulation of our tariff policy. There will be a growing need for the import of capital goods and machinery, partly for the replacement of those industries which had been over-worked during war-time and partly for meeting the requirements of new industries proposed to be established. With the development of new industries contemplated under the Industrial Policy, India will have to progressively reduce her exports of raw materials as a result of increased domestic consumption of the same, and to that extent our traditional pattern of trade will have to undergo a change, inasmuch as it will be necessary to increase the exports of manufactured and processed goods by diversifying India's export trade and developing new markets. Again, this will have to be closely linked up with our need for an export drive, both with a view to remedying the present adverse balance of trade position and raising the purchasing power of the people of the country. The above features necessarily imply that India cannot develop on purely autarchic lines and will have to increasingly participate in international trade, subject,

however, to the condition that the same is not detrimental to national interests. However, my Committee feel that while India should be fully prepared to extend co-operation in the international sphere with a view to expanding world trade and raising the standard of living of our people as outlined in the Havana Charter as one of the objectives, she cannot accept any curtailment or limitation of her right to fully protect her industries in a developmental manner, with a view to achieving the objective of industrialisation.

33 My Committee are convinced that the policy of protection properly related to the task of industrial development alone will prove to be an effective method of utilising the vast resources of the country in men and material for the maximum production of wealth, resulting in increasing national income and enhancing the taxable capacity of the people and raising the general standard of living of the people. The fiscal policy of the future should not merely be an instrument of industrial policy, but must be viewed as an integral part of the larger economic policy as a whole. The situation, in the opinion of my Committee, demands that a policy of full fledged protection directly related to the country's need for rapid industrialisation must replace the halting and piecemeal policy of discriminating protection and the conditions and qualifications for protection which resulted in retarding the industrial progress of the country should be liberalised and simplified under the new fiscal policy. In short, the new policy should be broad-based and comprehensive, so as to include all possible industries, large and small, existing and potential, within its ambit and the growth and development of industries which are essential in the interest of the national economy should not be prevented by conditions unduly restrictive in character.

34. It is hardly necessary to emphasize that most of the abvanced countries like U. K., Germany, France, the U.S.A., Australia and Canada have had to resort to protection for safeguarding their industries against unfair competition from more efficiently organised countries, with a view to reorganising the structure of their industries from small-scale to large-scale production on a factory basis. As an industrially under-developed country, India should, therefore, be perfectly free to make a legitimate use of protective measures, so as to expand production and employment at home and to raise the living standards of the people. The protective measures may be non-fiscal such as direct assistance rendered by the State in such matters as finance, scientific research, transport etc. as well as of an indirect nature, in the form of tariffs, subsidies or bounties and quantitative restrictions. It may be emphasized that India as a backward country would be mainly using the protective measures for the developmental purpose and, therefore, should have the fullest freedom to utilise these measures for expanding and developing her established as well as new industries. It is not necessary to examine here the relative merits and demerits of the various accepted methods of protection, as the same will be discussed later under the relevant Section. However, my Committee submit that the Tariff Board constituted for implementing the new fiscal policy should have the necessary freedom to recommend any one of the methods either singly or in combination, as the case may be, for the protection of a given industry, if the same is deemed to be essential in the best interests of the national economy.

35. The broad principles of the fiscal policy outlined above will necessitate the constitution of a new Tariff Board or any other suitable machinery with adequate powers for implementing the same. The Tariff Board, my Committee visualize, should be a permanent body vested with wide powers and functions: for example whenever it is convinced that there is a *prima facie* case, it should be authorised to undertake an investigation on its own initiative in respect of the conditions of a given industry and its specific difficulties. The Board must fur-

ther be empowered to review from time to time the working of protected industries and report to Government the progress made by such industries. The defects in the constitution and working of the Tariff Board under the policy of discriminating protection have already been examined above, and while constituting the new Tariff Board attempt should be made to remedy the various limitations that hampered the working of the Board. In this connection, emphasis should also be laid on the necessity of drastically revising and simplifying the procedure governing grant of protection to industries, so as to facilitate speedy investigation and dispense with undue delay in grant of protection. My Committee believe that the constitution of a permanent Tariff Board with adequate powers and functions and with necessary initiative and freedom will be of considerable assistance in accelerating the pace of industrial progress in the country.

36. Having made their observations on the working of the policy of discriminating protection and the need for a new reorientation of the fiscal policy of the future, my Committee would now proceed to give detailed replies to the specific questions under the separate sections of the Questionnaire.

PART I

Section A(i)

Introductory—Changes in the Economic Background since 1922-23

Question 1.—Since the Fiscal Commission reported in 1922 various factors have affected the economic structure of the country with the result that a complete change in the approach to the problems with which the present Commission is concerned has become absolutely necessary. Among the main factors that have influenced the economy of the country in the inter-war period was that of the national struggle for attaining political freedom. The period was marked by a series of attempts to march forward in the field of economic development in spite of the political subjection which prevented the pursuance of any policy in national interests. The second main factor which influenced the economic background was that of the events leading to the great Depression in 1931 which particularly affected the agricultural countries and primarily India to a larger extent and from the effects of which she was still to recover on the eve of the outbreak of the second World War. The country passed through the throes of the severest depression and the limited measure of industrialisation which had taken place was more due to the exigencies of a war economy than to a national consciousness of our vast industrial potentialities and the freedom to develop them. This condition continued even upto the end of the second World War and to be precise till the attainment of Independence in 1947. Thus the country has remained mainly agricultural with, of course, significant changes in the industrial sector in respect of a few of our main industries as cotton textiles, jute manufactures, paper, sugar, paints, heavy chemicals, cement, matches, etc. The Government's policy of protection, as will be observed below, has played but a very limited part in contributing to the development of any industry. On a broad analysis, in respect of the industrial and agricultural sector of the economy there has not been any appreciable change. Some significant developments have, however, occurred as to necessitate a revised policy in respect of them in national interests. The composition and direction of the foreign trade of the nation has also been affected by World War II besides the slow improvement noticed in the expansion of services as Shipping, Banking, Insurance and other companies. More than all these, the economic background which was mainly influenced previously by the policy pursued by a Foreign Government sacrificing national interests

has been fundamentally affected or changed by the attainment of Independence which gives the country complete freedom to shape her economic policies according to the needs and requirements of the nation with due regard to the potentialities in resources and limitations. Further, the partition of the country in consequence of the attainment of freedom is another factor which has affected the economy in respect of our resources, agricultural and industrial, also necessitating a review of the fiscal measures or policy so far pursued from entirely a different angle. Thus Government will have to set up new targets for industrial and agricultural development, determine the pace of attaining these targets and fix the time schedule which would all require a fundamental change in the approach by the Fiscal Commission, to these problems. The main objective of the Fiscal Commission, my Committee observe, should naturally be to bring about as rapid an industrialisation as possible with all such protective measures as may be necessary to foster and develop industries

Question 2.—Before pointing out the principal changes in our agricultural situation in respect of production, consumption and international trade, my Committee would like to make a general observation that the industrial developments of recent years have not altered the predominant position of agriculture in the economy of the country. During the past 50 years population increase has been at the rate of 0·8 per cent. per annum while agricultural production has lagged behind and has increased only by 0·4 per cent. Agricultural holdings have as a result been sub-divided progressively beyond the economic limit with resultant indebtedness and under-employment. The average Indian farmer has adhered to primitive methods and although Government has aimed at increasing production by the application of scientific knowledge progress has been slow. Therefore it may be generally stated that there is enough evidence to support the broad conclusion that over a long period of years foodgrains production has tended to remain virtually stationary in spite of the Grow More Food Campaign in force for the last six years. In the food sector of the agricultural economy, there has been deterioration, even the periodical or cylical fluctuations in prices and Government controls and plans failing to improve the acreage under cultivation and production. The net imports of food, mainly of rice, which were under one million tons or less than about 5 per cent. of our needs before the war have now increased from 2½ to 3 million tons and are likely to grow up with the growth in population, unless specifically stopped. The peak production in respect of rice and wheat, the staple food products, was reached in 1943/44 when the country produced 29 million tons of rice and 9 million tons of wheat. Since then the production has remained either stationary, taking due account of the reduction on account of partition, or it has actually fallen in case of some cereals. Of course it may be said that the greatest agricultural advance has been the development of irrigation works to ensure increasing yields irrespective of droughts. Another important change in respect of agricultural production is that of the restriction in acreage under commercial crops due to the priority given to the production of food crops by the various legislative measures of the provinces. For example, there has been a recorded fall in the acreage of cotton and jute even prior to partition and after partition the production has been very much reduced. The total production of cotton and jute in terms of bales was 5.1 and 6·8 million in 1938/39 whereas in 1948 it has been reduced to 2·1 and 1·9 million. This indicates that our agricultural economy has suffered in respect of two of the main commercial crops which had and have a high export value. Similar is the case with oilseeds (except groundnuts) where decline is noticed in production. In respect of consumption it would be very difficult to indicate any specific change in view of the complete lack of statistical data. However

it may be observed that on account of controls and rationing as well as the war-time conditions and increase in money incomes. there has been an increase in the demand for consumption of food products by the population as well as raw materials by industries.

In respect of international trade in agricultural commodities there has been a significant change in the traditional pattern of our trade which consisted of exports of primary products and raw materials and import of manufactured products. Cotton raw and waste constituted 23·5 per cent of our exports in 1936/37, while tea, oilseeds, grain, pulses and flour, jute raw and waste constituted 9·9, 9·1, 7·6 and 7·3 per cent respectively. On account of the war-time requirements as well as the pressure on demands for internal consumption, the revised policy of Government to preserve the use of raw materials and food products to the maximum extent for internal consumption, changed the old pattern of trade and steadily there has been a decline in the export of raw materials and an increase in the export of semi-manufactured, processed or manufactured articles. It is well known that 61 per cent. of our imports were of manufactured goods before the war and the export of manufactured articles stood only at 29 per cent. This trend has now been reversed, but my Committee would sound this caution that this should not be taken as a permanent change in the pattern as the industrialisation of the country has not proceeded according to any plan which would guarantee the maintenance of the altered pattern of our external trade. However, it should be possible for the country to maintain our external trade in respect of certain agricultural commodities particularly of tea and coffee, jute, tobacco, oilseeds, cotton and certain forest products besides minerals, etc.

Question 3.—The main changes noticed above in the agricultural situation are likely to affect in a large measure the pace and direction of our industrial progress. Firstly the vital importance of securing self-sufficiency in food may restrict the expansion in acreage and production of such agricultural products as are used directly as raw materials for purposes of industrial production or in the process of manufacturing industrial products. A preliminary plan would be necessary regarding crop production to meet the increased needs of internal consumption as well as industrial uses. That would mean in effect striking a balance between the maximum development of agriculture for self-sufficiency in food and for the targets of industrial production set up over a period Similarly the changes in consumption habits would influence the demand for manufactured articles thus maintaining the pressure on the scarce raw materials and unless there is simultaneous and rapid improvement in our agricultural production, not only of food crops but also of cash crops, the pace of industrialisation must be held up or to that extent import of raw materials or food will be necessary, which may not be ultimately in national interests. The altered pattern of our international trade has restricted the exports of agricultural products and thereby the country has lost the traditional markets even in respect of non-food products. In view of the fact that new manufactured products have not as yet captured the foreign markets and industrialisation either on a large or small scale has not progressed so far as to meet the loss of our export markets in traditional items by the substitution of new items the quantum of external trade must obviously be reduced if the present situation is maintained. Further, in order that industrialisation may advance rapidly, imports of essential capital equipment and raw materials in some cases are necessary and the flow of these into the country is conditioned by our capacity to pay, which again depends on exchange resources available and the rate of our imports. Thus my Committee would like the Commission to take note of the fact that the changes in the external trade of our agricultural products have a vital bearing on the pace of industrialisation and it would be in the interests of the country's economic progress in the transition period to

make a balanced allocation of the agricultural resources except in food products, between internal needs and external purposes with a view to maintain our hold in foreign markets until such time as the manufactured articles resulting from growing industrialisation find a place in these or other new markets. From the point of view of the implementation of the industrial programmes alone it would be necessary to give equal attention to our agricultural situation in so far as both are mutually dependent in attaining the economic objectives of a higher standard of living and full employment. The deterioration in the agricultural situation, particularly in the food sector, is not a little responsible for the holding up of many schemes of industrial development, the attention of Government being diverted on the problem of finding food for the masses. The heavy cost of imports of food is a drain on our financial resources which could be better utilised for imports of equipment for the development of industries. To that extent any success achieved in stopping this drain will greatly help the pace of industrialisation by facilitating greater imports of essential raw materials and equipment. The effects have been broadly indicated here to show the close link that exists between our agriculture and industry and my Committee would again emphasize the need for considering the fiscal measures necessary to develop our industries in the background of our existing agricultural situation and prospects of improvement.

Question 4.—As indicated in the answer to the previous question the basic improvements in our agriculture should subserve the urgent needs of attaining self-sufficiency in food which would save us foreign exchange and secondly of intensifying the production of crops that have a high export value which would increase our foreign exchange resources while adequately meeting the requirements of the local industries. The urgent basic reform in agriculture would be to apply measures to increase the average yield per acre of all agricultural products which is far below that of any other country, by way of scientific improvement in seed selection application of manures, organic and chemical, and educating the farmer in the latest methods of farming through demonstration of tractor cultivation and use of improved implements. Secondly, reclamation of all waste lands would increase the acreage under cultivation and such reclaimed lands could well be experimented upon for growing cash crops or subsidiary food crops. Intensive cultivation can yield quick results while extensive cultivation will bear fruits over a period and it should be possible to combine both these methods in improving our agricultural situation. While reclamation of waste lands or weed infested lands can be taken on hand on a country-wide scale only on Government initiative or effort, my Committee observe it is necessary to effect such agrarian reforms as are necessary to bring about consolidation of the tiny fragmented holdings through co-operation and such other methods and help the cultivating farmers to make the maximum use of Government assistance by way of loans, etc. Besides, other basic improvements in agriculture would be a scheme of crop planning adapted to our industrial plan, a scheme for crop loans for financing agriculture, scientific storage of products in rural areas, their efficient marketing and distribution preventing the exploitation by middlemen and the most important of all the guarantee of a fair and minimum price for agricultural products to the primary producers. Any policy of intensified industrialisation will not yield desired results unless the living standards of the agricultural population are raised and to that end the above basic reforms must be enforced simultaneously.

In respect of our valuable mineral resources which form the very basis of modern industrial civilisation and which are a wasting asset, my Committee feel that a careful planning both for conservation and prudent utilisation of these resources are indispensable for a country like India which is said just to begin an intensified industrial drive in the near future. The country has an

export surplus in iron ore, titanium ore, and mica while limited quantities can be spared for export in respect of manganese ore, bauxite, magnesite, refractory minerals, natural abrasives, steatite, silica, monazite, corundum and cement materials. Having regard to the present and near future requirements the country is self-sufficient in coal, bauxite, chrome ore, limestone, mineral pigments, rare earths, beryllium, etc. There are other minerals as copper, silver, nickel, lead, zinc, tin, tungsten, molybdenum, platinum, petroleum, sulphur, fluorides, mercury, graphite, asphalt and potash for which she has to depend largely or entirely on imports. From this list it is clear that the country is rich in mineral resources of certain varieties but in respect of others, particularly minerals of strategic and defence importance, is short of and has to depend on outside supplies. Thus in order that our intensified industrial programme may be well supported in regard to the mineral requirements there is need for strict conservation and planning in utilisation of available resources. In this connection, my Committee are aware that central control of the mineral industry has already been accepted as a matter of policy but would recommend a clear-cut and uniform machinery in all Provinces to exploit the resources on scientific and up-to-date lines. Other urgent measures called for are a careful watch over and review of the export of our minerals the prices of minerals outside, standardisation of minerals such as mica and manganese and other incidental facilities that may be required by the industry to make an easy movement from places of extraction to that of utilisation.

Question 5.—Please refer preliminary observations, paras. 12 and 13.

Question 6.—(*a*) The extent to which our industrial development still falls short of our essential requirements has been already indicated in the preliminary remarks.

For an all-round industrialisation of the country, in the opinion of my Committee, the following industries would require to be promoted:—

Defence Industries—Such as firearms, munitions, explosives, shells and torpedoes, tanks and armoured cars; warships including submarines; military aircraft; gas and gas masks, etc.

Basic and Key Industries—Such as iron and steel, automobiles and tractors; shipbuilding and marine engineering electrical engineering and equipment; heavy chemical industries; machine tool industry; industrial plant and machinery; power alcohol, rubber manufactures, coal, cement, synthetic petrol, etc.

Consumers' Goods Industries—Such as cotton and wollen textiles, silk and art silk manufactures, sugar, match manufacturing, bicycles, starch, motor vehicles battery, glass industry, etc.

Services—Such as banking, shipping and insurance.

(*b*) While the year 1948 witnessed an improvement in the overall production, the output in some of the major industries is not only short of our requirements but is also below the installed capacity. Thus, for instance, cotton manufacture in the year 1948 is estimated at 4,338 million yards as against the installed capacity of 4,787 million yards. The corresponding figures for finished steel are 854,000 tons and 1,264,000 tons and those for cement 1,516,000 tons and 2,115,000 tons. The fall in industrial production noted above has been due to certain factors inherent in the present economic situation of the country which have removed the necessary incentive required for industrial progress. The general economic policy of Government, the attitude of labour and their go-slow tactics, the shortage of raw materials, the difficulty of securing machinery for renewal

and replacement and above all the heavy burden of taxation have combined to create difficulties for industries hampering the production drive. My Committee therefore suggest that Government should take immedaite steps to remove these impediments in the way of indigenous industries and thus facilitate production upto the full installed capacity. It is also necessary to take measures to further expand the production capacity of the various indigenous industries. In this connection, it may be pointed out that the targets fixed by the panels for different industries and endorsed by the report of the Advisory Planning Board are generally acceptable to the Committee.

(c) My Committee have no observations to make on this. They feel that the information regarding the overhead and operative costs can best be had from the various manufacturing units in different industries.

(d) Please refer reply to Q. 17.

(e) Please see preliminary observations.

(f) The shortage of raw materials of various kinds is one of the serious handicaps confronting the industries in this country. Some of the raw materials required by our industries have to be imported from foreign sources. My Committee suggest that Government should do everything in their power to secure the imports of such raw materials from abroad to the extent required by the industries. As regards raw materials available in this country, their supply can be greatly augmented by the reorganization of our agriculture, development of our forest resources and the full exploitation of our mineral resources. In this connection, they would like to draw the attention of the Commission to two observations that have been made by the various panels. In the first place our information of raw materials resources in the country is by no means complete. Secondly, except in a few cases, there has been no attempt to introduce grading and acceptable standards of quality in regard to raw materials. With regard to the first, my Committee are of the opinion that a study of our various raw materials by experts should be undertaken. The question of the quality of raw materials, it is hoped, will be solved by the Indian Standards Institute.

Coal is, by far, the most important item of fuel in the industries. According to the report of the Planning Advisory Board, our coal production at present can roughly be estimated at about 29 million tons per annum, whereas the requirement of the various consumers of coal in India will be of the order of 30 million tons. The Coalfields Committee which have examined the whole question thoroughly are of the opinion that if certain measures recommended by them are carried out, production could be stepped up by about 1½ million tons annually so that by 1956 about 41 million tons of coal will be produced in this country. It will, thus, be seen that the production of coal is only a little short of our requirements. Owing to the transport difficulty, however, all the coal produced cannot be moved from the collieries. It has been estimated by the Planning Advisory Board that owing to transport difficulties the gap between demand and the quantity of coal which is being moved from the collieries is between 4 and 4½ million tons, although the gap between demand and the actual production is of the order of only one million tons. My Committee, therefore, point out that it is the transport difficulty which is the crux of the problem in regard to the availability of coal. They, therefore, suggest that Government should take measures to improve the transport situation as far as possible.

Power is a great potential factor for large-scale industrialisation. India possesses a large number of rivers. It has been estimated that the harnessing of the water of some of our rivers would make available to the country power

resources to the extent of 30/40 million Kwhs. The schemes for several river projects have already been drawn up and work has even started on some of them like Damodar Valley Project, Hirakud Dam Project and the Kosi River Project. It is hoped that on completion of the various projects, India will have plentiful supply of power required for the various industries.

(*g*) and (*h*) Please refer reply to Q. 17(i).

(*i*) The efficiency of labour in India has always been far below the standards required in industry. There has been a further deterioration in this efficiency during the war period and thereafter on account of the attitude of labour and other causes. On the other hand labour costs in industry consequent on the inflationary conditions generated by war and the high cost of living have reached the peak and are untenable at the level at which they stand today in relation to the other costs of industry, low profit margins and the prospects for business. This has been amply borne by facts repeatedly stressed by representatives of industry. The wage bill has been on the increase continuously since 1939-40 and it is estimated that it is over 300 per cent. of the wage bill for 1939-40 though the total number of labour in industries increased only by about 22 per cent. On the other hand industrial production as compared to 1939-40 has been stagnant, the increase being about 2·7 per cent. To quote the instance of steel industry in particular which may be taken as representative of conditions prevailing in other industries so far as labour costs are concerned, it is understood that the average labour cost per ton of finished steel has gone up from Rs. 31·54 in 1939-40 to Rs. 92·80 in 1948-49 while the average output of finished steel per employee has declined from 24·36 tons in 1939-40 to 16·30 tons 1948-49. The output per man in the structural shops here is half a ton per month whereas the average output per man in similar shops in the U.S. is five tons per month. The issue of high wages in industrial costs and the resulting unbearable burden on industry combined with the low efficiency and output has become a vital one and my Committee hope the Fiscal Commission will go into this aspect of the question.

Questoin 7.—(*a*) Cottage and small-scale industries have been an integral part of the national economy of India. How, the various handicrafts in our country were prosperous in the past, how their products were of world renown and how they received a set-back by the factory products imported into India from the U.K. are matters of common historical knowledge. Even at present, cottage and small-scale industries form an essential part of our rural economy. The agriculturist in India is not engaged in agricultural operations throughout the year. He pursues some subsidiary occupation to supplement the income derived from agriculture. Among the subsidiary occupations still pursued by the farmers are hand-spinning and weaving, flour grinding, rice pounding, basket making, sericulture, etc. There are also other village industries such as blacksmithy, carpentry, weaving, tannery, pottery, etc. which are carried on in the village as sole occupations. Most of the cottage and small-scale industries, however, have been in a state of decadence for the last many decades. During the last World War, cottage industries like the handloom industry got a fillip but that was only a temporary phase and with the restoration of normal conditions, they are likely to relapse into the pre-war state. My Committee feel that the question of rehabilitation and regeneration of cottage and small-scale industries must be considered in a comprehensive manner. The various handicaps and difficulties under which they have been labouring have been pointed out by my Committee in their reply to Q. 12. They have also suggested therein the steps that would be necessary for the development and promotion of the cottage and small-scale industries.

(*b*) (i) It is well known that our economy has hitherto developed in a lop-sided manner and has been characterised by an unduly heavy pressure on land. Promotion and development of the cottage and small-scale industries will, in the opinion of my Committee, greatly reduce this heavy pressure on land and will greatly facilitate the evolution of a balanced economy in the country. As is commonly known, the average farmer in India has at present no resources to undertake measures to improve the yield from his land. The development of the cottage industries which are carried on by the agriculturists as subsidiary occupations will enhance, their purchasing power and give them the necessary wherewithal for the introduction of improvement schemes on their land.

The relation between the cottage industries and the small-scale industries should, in the opinion of my Committee, generally be one of co-operation. However, in certain cases competition has developed between them in the process of our economic development. For instance, in regard to hand weaving, small powerlooms have already started offering serious competition to the small handloom weaver. Similarly, the cottage products are likely to meet with competition from the factory-made tiles, factory-made coir and coir products, factory-made soap, factory-made furniture, etc. This is, however, inevitable as many of the small power industries have the quality of superior efficiency and the additional advantage of employing a large number of persons per unit of output than the cottage industries.

(ii) Cottage and small-scale industries have played an important role in our national economy in the past and my Committee think that even if we launch a programme of large-scale industrialisation there will still be a great scope for cottage and small-scale industries in the economy of the country. In certain countries like Switzerland, Sweeden, Japan, etc. the two forms of production, *viz*. small-scale and large-scale, instead of conflicting with each other, supplement one another to the mutual benefit of both and ultimately to the benefit of the country as a whole. Similarly, in India, large-scale and small-scale industries can develop side by side. By judicious adjustment, it is possible to establish a mutually beneficial co-operation between large-scale production on the one hand and small-scale and cottage industries on the other.

Cottage or small-scale form of production is particularly suited for the better utilisation of the local resources and for the purpose of achieving local self-sufficiency in respect of certain types of essential consumer goods like cloth, agricultural implements, etc. Again, there are some cottage industries which not only do not compete with large-scale industries but are dependent on the existence of the latter such as, for instance, tape making, bobbin making, calico-printing on mill-made cloth, etc. There are also a number of services which have followed in the wake of large-scale production, particularly those of repairs, which give whole-time employment to a number of cottage workers. These are some of the instances which indicate that large-scale and small-scale forms of production can develop side by side in our national economy.

Question 8.—Whatever the pace of large-scale industrialisation, there is no doubt that both cottage and small-scale industries, as pointed out in the reply to Q. 7, will have a significant role to play in the national economy both from short and long-term points of view.

SECTION A(ii)

Question 9.—(*a*) The following are some of the small-scale and cottage industries which can be developed as subsidiary to agriculture: Sericulture, Poultry farming; Sheep breeding; Lac industry; Dairy farming; Cashew-nut

kernels (removal of the shells); Gardening and vegetable culture; Fruit cultivation, dried fruits, etc.; Basket making; Paddy husking; Flour grinding; Gur making; Cotton ginning; Carding and spinning; Wheat flakes, parched rice, pickle powder, betel-nut slices, etc.; Dal milling; Rope, fishing nets, etc.; Wood cutting and charcoal burning; Umbrellas and fans from palm leaves; Patravali making; Chunam burning; Knitting embroidery, etc.

(b) The following small-scale and cottage industries, among others, can be developed as supplementary to large-scale industries.

Motor repairing; Workshops for locomotive parts; Manufacture of Textile wooden Parts; Manufacture of healds and reeds; Manufacture of mill-belting; Manufacture of cushions; Roller skins; Pickers manufacture; Tape-making; Bobbin making; Machine-made brass, copper and aluminiumware; Tiles and bricks; Watch manufacture; Hosiery; manufactures of safes, racks and iron furniture; Manufacture of soap; manufacture of aerated waters, fruit drinks, ice, etc.; Dyeing and bleaching; Dairy products; Tanneries. Glass and glassware; Gold and silver thread and allied products, etc.

(c) The following small-scale and cottage industries among others can be developed as independent units of production:

Bangles making; Oil pressing by ghanis; Shoe and champal making; Carpentary and cart making; Toy making; Blacksmithy, cutlery and locks; Pottery, tiles and bricks; Mango canning and other fruit products; Sandalwood and ivory carving; Bidi making; Glue making; Qumkum making; Agarbatti, scents and toilet products; Fishing and fish curing; Cap making; Assembling of Harmoniums; Rubberstamp making; Book-binding; Confectionery products; Fire-works; Preparation of brushes; Snuff; Dye-making, Button manufacture; Coper and brassware like handas, thalis, plates, etc.; Slates, sandal grinding and other grinding stones, marbles, etc.

Question 10.—In the opinion of my Committee, there are good prospects for many of our cottage industries in the foreign markets. Particularly our artwares such as handmade carved and inlaid woodworks, including wooden toys; brass artwares; enamelwares, ivory carvings; cotton and silk embroidery; gold and silver embroidery goods, filigree works of all other kinds; coir and coir products; and the lac and lac products, etc. can secure a large amount of foreign exchange, particularly dollars, if attempts are made to explore the exports possibilities of these articles by introducing them through proper channels in the foreign countries. My Committee are of the opinion that the expansion of exports of the cottage products would give a great stimulus to the development of our cottage industries.

Question 11.—My Committee are not aware of many cases of this nature where protection to large-scale industries has seriously affected small-scale and cottage industries. However, as in the case of the handloom industry difficulties might arise where the small-scale or cottage industries may have to depend on products of a protected industry for use as raw material or otherwise. In such cases, provision should be made to safeguard the interest of such small-scale industries on the merits of the case.

Question 12.—The following are the main handicaps from which our cottage and small-scale industries have been suffering: foreign competition, lack of cheap and easy money facilities, comparative high transport charges, low purchasing power of the village population, absence of marketing facilities, dearth of technicians, lack of power-generating machines, want of raw materials, illiteracy and taxation, particularly Municipal taxes like Octroi duties and terminal taxes.

Several Commissions and Committees including Tariff Boards have invariably recorded, during the course of their findings, that a large number of our cottage and small-scale industries disappeared because of lack of State assistance and step-motherly attitude shown by the then Government towards the indigenous industries. It is noticed, for instance, from the report of the Bombay Economic and Industrial Survey Committee, 1938-40 appointed by the Government of Bombay, that shoe making industry, fireworks industry, bangle industry, beedi making industry and many others of like nature could not thrive or prosper because of want of financial assistance which they needed most. Efforts should, therefore, be made by the State to provide financial facilities to regenerate and rehabilitate these industries. My Committee would point out that Japan, Italy, Germany, Switzerland, Sweeden, to mention only a few countries, for instance, give special encouragement to village industries and handicrafts by all possible means.

Among other steps which are, in the opinion of my Committee, essential for the promotion and development of our village industries and handicrafts, the first and foremost is, adequate provision of raw materials of the requisite type and in sufficient quantity to the village artisans. Secondly, they must be provided with technical skill. Certain village industries like soap, painting, dyeing and printing, cart-making, preparations of German silver utensils, manufacture of clocks and watches, etc. require expert technicians. Thirdly, the methods and technique of manufacture of village industries must be re-orientated by an organised and State-aided effort. Fourthly, an effort must be made for the organisation of the village industries and handicrafts on proper lines. Fifthly, adequate marketing facilities must be provided for the products of our cottage and small-scale industries. There is at present an almost complete lack of marketing arrangements for such products. No publicity, for instance, is given to the cottage products either through the press or through posters as is done even in the industrially advanced countries of the West. There is no market research as far as cottage industries are concerned; nor has any determined attempt been made to introduce new styles and new types to cater to the consumers' changing tastes.

Financial assistance is, however, as stated above, the greatest need of the village artisan. It is common knowledge that for want of adequate financial facilities the rural craftsman works under many a handicap both for the purchase of raw materials and new equipment. At present, the artisan, being so poor and without any tangible assets of his own, is not able to avail himself of the existing facilities in the banks or co-operative credit societies. My Committee, therefore, suggest that attempts should be made to provide adequate facilities for securing financial help on easy terms and conditions to the village handicrafts and industries through an industrial co-operative or an institution of allied nature. When the various problems facing the cottage and small-scale industries are solved as above, their competitive power *vis-a-vis* the products of large-scale industries will be greatly enhanced.

Question 13.—As has been already stated, there is great scope for the products of our various cottage industries in foreign markets provided systematic attempts are made to introduce them in those markets. It would be a part of our Export Drive to explore the possibilities for the products of such of our cottage industries as have exportable surpluses. When India enters into Trade agreements with foreign countries, Government should see to it that they contain provisions for the maximum off-take of our various cottage products by the different foreign countries.

It has been our experience in the past that many of our cottage industries had to face unfair competition from similar products imported from some of the foreign countries like Japan, Germany, Switzerland, Sweeden where State

rendered all possible help and assistance and gave encouragement to the cottage industries. My Committee would point out that it will be necessary to safeguard the interests of our cottage industries against any such contingency that may arise in future till our cottage industries receive the necessary assistance and encouragement from the State.

Section B

Policy of Discriminating Protection and its Application since 1923

Questions 14, 15 *and* 16.—Have been dealt within the preliminary observations.

Question 17.—Amongst the supplementary measures recommended by the Fiscal Commission, mention may be made of the following:

(i) Industrial bias in primary education and training of apprentices;

(ii) An adequate change in the principles governing the policy of railway rates, with a view to promoting Indian industries; and

(iii) Appropriate measures against Dumping.

(i) *Technical Education.*—Having advocated the policy of discriminating protection, the Commission observed that mere imposition of protective duties, however, scientifically contrived, would not by itself produce that full industrial development which we desire. They, therefore, rightly laid stress on the necessity of raising the quality of Indian labour by an improvement in the education of the labourer, which would lead to a higher standard of intelligence and a higher standard of living. For this, it was suggested that there was an increasing necessity for giving a more practical and industrial turn to our system of education. As an additional measure it was also recommended that Government whenever they placed important orders abroad must include as one of the conditions of the tender with the foreign firms that they should agree to afford facilities for technical training for Indian apprentices sent by the Government of India.

The recommendations made by the Fiscal Commission in the context of the conditions then prevailing were in the right direction and if a concerted effort were made to implement the suggestions the country would have made substantial progress in meeting the requirements of industries in respect of technically trained labour. Shortage of trained personnel had in the past caused difficulties in the matter of successful expansion of industries in the country. It will, therefore, be readily agreed that in view of the needs of industries in the future for skilled personnel and in order to provide full facilities for the aptitudes of those who desire a practical course of technical training, an efficient system of technical education is a matter of extreme importance. In this connection, it may be pointed out that the Government of India had invited two experts, Messrs. Abbot and Wood, who submitted their Report in 1937, making recommendations regarding necessary reforms in the system of education available in the country. Mr. Abbot, who very aptly observed that 'no country can initiate and carry on industries on a large scale unless it has an adequate supply of men specially trained for the direction and management of large industrial concerns as well as others qualified for the minor but very important supervisory posts provided in them.' Some effort was made by the Labour and Education Departments of the various Provincial Governments, but no substantial result was achieved in this direction. Technical training in the past did not perhaps make much headway, partly because of the limited number of openings which were available in the sphere of industry and commerce. Fortunately, the war-time expansion of industries created an increased demand for technicians and attempts

were made to provide necessary facilities for meeting the requirements of the war-time industries. In the post-war world, when the country is planning to industrialise to the greatest extent possible it is felt that the most serious problem facing the country is lack of competent technical personnel, which is a fundamental pre-requisite of rapid industrialisation. Generally speaking, the requirements of industry in respect of technical personnel may be classified into three categories: (i) skilled and semi-skilled workers, (ii) managers, designers and executives, and (iii) supervisors, chargemen and foremen. My Committee note that some progress is being made in the direction of establishing higher technical institutions on the model of the Massachussets Institute of Technology and there are also schemes in operation for sending students abroad for post-graduate and research work and for practical training. As regards the supervisory personnel during the war-time, the Bevin training scheme did play an important part, but the same is no longer in operation and no scheme seems to have been devised to replace the same.

As to the position prevailing at present, it may be relevant to quote from the Report of Messrs. Ford, Beacon and Davis, who had made a survey at the request of the Government of India: 'there is an almost complete lack of engineering and management experience or know-how; in other words, the intimate knowledge of the most practical means under any given condition to produce a quantity at low cost and involves knowledge of methods of processing, tooling and designing of jigs and fixture, the lay-out of equipment and provision of labour-saving devices; the designing and setting up of proper controls on production and inventories, etc. This know-how is perhaps the most important single element requisite for rapid and successful industrialisation'. They further emphasized that lack of adequate mechanical, electrical and hydraulic equipment and the like in the technical colleges and institutions in India is a real handicap, to the effective education and training of technical students.

My Committee are of the view that the Government of India should try to fill in these vital gaps in our industrial equipment at the earliest possible opportunity and reorientate the schemes of education, with a view to providing adequate opportunities for mechanical and technical training. In this connection, the recommendations made by the Scientific Man-power Committee in their report in respect of the requirements of scientific personnel deserve careful consideration. Attempt should also be made to bring about a greater degree of co-ordination between industry and institutions of industrial and technical training and facilities should be provided both for-pre-employment and post-employment stages. It is hoped that adequate provision will also be made for giving the necessary training and equipment to the craftsmen in the villages for the development of cottage industries, inasmuch as small-scale and cottage industries, in addition to large-scale industrialisation, are likely to play an important role in the national economy.

(ii) *Railway Rates Policy.*—Having examined the charges generally levelled against the railway rates policy that the system on which the railway rates are fixed is injurious to the interests of the industries and that broadly speaking the rates are so framed as to encourage traffc to and from the posts at the expense of internal traffic, the Fiscal Commission expressed themselves in general agreement with the views of the Indian Industrial Commission on the question and endorsed their recommendation. The Industrial Commission recommended that the governing principle to be followed in railway rating so far as it affects industries should be that internal traffic should be rated as nearly as possible on an equality with traffic of the same class and over similar distances to and from the ports. It was believed that the acceptance of the principle in case of raw materials conveyed to or manufactured articles conveyed from Indian manufacturing centres would go a great way in removing complaints against this

policy of railway rates. The Commission also endorsed the recommendation that machinery and stores destined for industrial use in India should be transported at the lowest rate possible. A plea was also made for the acceptance of the principle that 'a consignment travelling over more than one line should be charged a single sum based on the total distance'. In addition, the Commission recommended the constitution of a Rates Tribunal, which should be set up with adequate powers to give a fair judgment as between the trader and the railways.

It is an established fact that in India for the last so many years the individualistic rates policy of the Indian Railway has not helped the growth and development of indigenous industries. The Holland Commission pointed out as early as 1916-18 the effects of the railway rates on the industrial development of the country, which mainly catered for the export of raw materials and the import of foreign manufactures. It was further corroborated by the Acworth Committee that undue preference such as lower rates for export and import traffic did unquestionably exist. The question again came under review at the time of the various enquiries instituted by the Tariff Board, who examined the anomalies in the rate structure and its incidence on industries, but my Committee are constrained to observe that though the recommendations of the Commission were well-conceived, no adequate steps were taken by Government to implement the same with a view to developing and fostering the growth of industries in the country.

While in the United States coke could be moved by hundreds of miles from Pensylvannia and ore is carried over no less a distance from Lake Superior and yet a thriving big iron and finished steel industry could be established because of the transport policy and the facilities in the U.S.A., in India the railway freight policy has been anything but helpfui to the iron and steel industry. As is well known the freight charges were increased from time to time by the E.I. and the B.N. Railways, with the result that in 1934 the increase in freights on iron and steel amounted to Rs. 40 lakhs per year. This had naturally inflated the measure of protection but for which, as was observed, the industry would have been content with a lower scale of protection. The case of the Heavy Chemical Industry is another instance in point. The Tariff Board pointed out in their Report that the possibility of organising the industry on a satisfactory basis depended to a great extent on the fixation of lower railway rates. It was further emphasized by them that in such cases it would be essential to subordinate the consideration of railway finance to the interests of the country as a whole. However, the proposals were turned down by the Government and the industry did not receive the benefit of the recommendation of the Tariff Board. Likewise, the Railway Rates Advisory Committee pointed out that the system of rate-making in respect of cotton enabled the foreign manufacturer to import cotton from India to his shores cheaper than the Indian mill-owners at Howrah. Despite the fact that special rates were quoted for some Indian industries, several Chambers of Commerce had to represent to the Wedgewood Committee, who were impressed with the feeling of grievance in regard to these rates that they had not been adjusted to the changed fiscal conditions and resulted in facilitating import and export traffic to the detriment of Indian industries. It is true that some concessions have been made in respect of sugar, iron steel and other industries, but the fact remains that the whole rate structure needs to be completely reviewed afresh and overhauled with a view to subserve the changing pattern of our trade, export and import, as the result of development of domestic production in respect of large classes of commodities.

My Committee would further like to point out that the Railways have so far neglected the important question of connecting the internal centres of production and consumption and thereby increasing the possibilities of developing internal trade. As is well known, hitherto the construction of Railways has been

largely governed by military and political considerations, and has been hardly related to the needs of our internal trade and industry. It should now at least be quite feasible to effect the necessary change in policy with a view to encouraging the rapid economic development of the country. However, my Committee are glad to note that the problems relating to railway rates policy are now engaging the attention of the authorities and recently telescopic rates have been made available on continuous lines as an experimental meaure. My Committee welcome the simplification of the multiplicity of the schedules and the introduction of a telescopic bias to the rating system, and they hope that this will be further extended. It has been already accepted by the Railway authorities that the present classification of railway rates was a long-standing one and that the same was in many respects unsatisfactory. In this connection, the newly constituted Railway Rates Tribunal is a move in the right direction and it is hoped that when it starts functioning it will properly look into the anomalies of the present rate structure including internal freight differentials and evolve a national rates policy for fostering industries which exist and which may come into existence hereafter. The Tribunal will also have to specially adjust the rates for indigenous products and the rates for imported goods and also evolve a more broad-based classification of goods for the purpose of rate-fixing.

(iii) *Measures against Dumping.*—The Fiscal Commission while considering the question of measures against dumping accepted that several causes, such as (i) accidental over-production, (ii) monopoly in the home market due to tariff production, and (iii) definite attempt to extinguish a foreign industry by deliberately supplying goods at a loss, which lead to the phenomenon of dumping. Dumping was defined by the Commission as 'the sale of imported merchandise at an f.o.b. price lower the prevailing market or wholesale price in the country of production'. If dumping is resorted to in an organised and systematic nature, the same is likely to result into serious injury to domestic industry and produce a feeling of insecurity. It was further recognised that where dumping was deliberate, it should be clearly incumbent on the State to undertake measures to prevent the success of such a policy. Accordingly, the Commission recommended that legislation to counteract the effects of dumping should be undertaken by the Government on the lines of that passed by the U.S.A. and Australia. However, the Commission insisted that action should be only taken after a full-fledged inquiry into the allegation on dumping has been made by the Tariff Board and the case is established that the dumping resorted to by foreign countries is injuring or is likely to injure the domestic industry.

It may be observed, as stated in the preliminary observations, that the character of protection granted to Indian industries was largely of a safeguarding variety calculated to tide over transitional difficulties. This was mainly due to conditions of unfair competition brought about by monopolies, exchange depreciations, over-production and depression of world-wide character that characterised the inter-war period. However, it is pertinent to note that in spite of conditions of unfair competition and the specific recommendation made by the Commission, the Government did not provide for any definite anti-dumping legislation, apart from the Safeguarding of industries Act, which for technical reasons remained a dead letter. The only safeguard available was in the form of a protective duty or sometimes a revenue duty. In the absence of any effective anti-dumping legislation which can operate in an expeditious manner, as stated above, in the case of manufacturing industries, such as steel, cotton, silk, etc. protective duties were imposed after elaborate inquiries though the principal factor against which the Indian industries had to contend was mainly the result of unfair competition or dumping.

Again, the procedure adopted was not conducive to the granting of immediate protection against dumping which industries needed. For example, while the Tariff Board recognised in respect of steel that the British steel

manufacturers and the continental producers were trying to sell steel for export at lower prices than the prices prevailing in the domestic market, yet they wanted definite evidence as to the intention that the price-cutting was being resorted with the objective of killing the industry in India. Similarly, in respect of heavy chemical industry it was established that foreign international combines were trying to sell chemicals at prices below those which they charged in other countries. The hesitant attitude of the Commission in respect of proving the existence of dumping was reflected in the inquiries of the Tariff Board with the result that undue emphasis was placed on the intention or objective behind dumping rather than the resultant unfair competition seriously affecting the domestic industry.

My Committee are of the view that the whole question of dumping needs to be re-considered in the light of the experience of the harmful effects which it is capable of producing. The phenomenon of dumping has been more thoroughly examined by economists and dumping is now defined as 'price-discrimination between different national markets'. This is a more comprehensive definition, inasmuch as it includes a wider range of practices resorted to by various countries. The various technical forms dumping may assume either according to the duration or the motive have been classified by Prof Arnold Plant as under:

Sporadic:

(1) To dispose of a casual over-stock;

(2) Unintentional.

Short-run or intermittent

(1) To maintain or develop a market;

(2) To eliminate or forestall competition;

(3) To retaliate against dumping in the reverse direction.

Long-run or continuous;

(1) To secure economies from large-scale production than domestic market can absorb without cutting domestic price;

(2) On purely mercantilistic grounds;

(3) To counter a protective duty in the export market.

To quote the same author in 'ordinary' dumping the price discrimination is revealed by simply a comparison of the invoices of identical sales to a domestic buyer and a foreign buyer. In 'sales' dumping the invoice prices show no price discrimination, but the goods exported are sold by traders or from stocks held on consignment with agents in the receiving country at lower prices. The term is also extended to cover 'bounty-fed exports', 'freight dumping' and 'exchange-dumping', each of which may or may not involve the price discrimination between the domestic and foreign markets.

In view of the complexity of the phenomenon of dumping and the various forms that it can assume, my Committee are of the view that a fairly comprehensive legislation must be enacted for the purpose of meeting the dangers arising out of any category of dumping. They further believe that for an industrially backward country, it is also necessary to guard against the sporadic forms of dumping which are occasionally resorted to by industrially advanced countries. In fact, the anti-dumping legislation should not be mixed up with the question of protection and a specific provision for this should be made in the fiscal legislation of the future. As to the procedure, my Committee hold

the view that the recommendation made by the Fiscal Commission as to the previous inquiry by the Tariff Board will not be helpful to our industries. They would rather prefer the Canadian procedure, whereby due protection straight-away given to the industry by executive action. From the point of view of promoting the Indian industries, it would be better to adopt the procedure, *viz.* necessary action being taken by Government on the submission of *prima facie* evidence, followed by a subsequent enquiry by the Tariff Board.

Question 18(*a*).—Please refer to the preliminary observations.

Question 18(*b*).—In a resolution passed in the Central Legislative Assembly in the Budget Session of 1923, the principle of discriminating protection was accepted, subject to the following general qualifications, among others. viz. that 'in the application of the principle of protection regard must be had to the financial needs of the country and to the then dependence of the Government of India on export, import and excise duties for a large part of its revenue'. It is well known that India's tariff has been primarily a revenue tariff and the Government have been placing increasing reliance on the revenue tariff from customs for meeting their budgetary requirements. While my Committee appreciate that the revenue needs will persist and customs duties may continue to provide a substantial part of the Government of India's revenue, they would at the same time like to state that undue emphasis should not be laid on purely revenue considerations as against the fiscal and industrial needs of the country. In fact, revenue considerations should not be allowed to override fiscal decisions, and if the fiscal policy is calculated to promote industrialisation of the country, it should be clearly accepted that where after a careful inquiry and due consideration the Board has recommended the case for protection of a given industry, revenue considerations must not unduly influence Government's decision as to whether the industry should be protected or not. This, however, does not mean that revenue requirements should be completely ignored, but what is emphasized is that while the Government may certainly give due consideration to the revenue needs, the same should not prove to be an obstruction in the application of the fiscal policy.

However, the position has considerably changed since the adoption of the Resolution and a tendency is noticeable for an increasing reliance being placed on direct taxes and excise duties. In over-emphasizing the loss resulting from the Customs revenue, it was forgotten that progressive industrialisation will open out several other sources of revenue, which can compensate for the so-called loss. **A reference to the cases of iron and steel**, sugar and other industries would make it clear that the loss in customs revenue was made up in more than one direction such as increased income-tax payments, excise receipts, increased railway earnings, and in cases, customs revenues due to larger imports of machinery and industrial raw materials. This possibility was clearly visualized by the Commission in the Report where they observed:

> "Now so far as industrial development increases national wealth, it will of course also increase the taxable resources of the country and bring increased revenue to the State. But industrial development also produces wealth in a form in which it is likely to yield a relatively high revenue. Agricultural wealth is taxable only through land revenue. which expands but slowly. The profits of industries on the other hand are taxed mainly through the income-tax and also after distribution to individuals contribute largely to the customs and both these are sources of revenue, which respond immediately to the increase of wealth. It, therefore, seems reasonable to suppose that industrial development will exercise a favourable influence on public revenues." (Page 23).

My Committee, therefore, feel that in formulating the future fiscal policy, undue emphasis should not be placed on purely revenue considerations of the Government, but the same should be related to the larger economic interests of the country as a whole.

Question 19.—In 1945, the Government of India constituted an interim Tariff Board in the first instance for a period of 2 years to investigate into the question of protection or assistance to war-time industries pending the formulation of the long-term tariff policy the Board was to recommend protection as an interim measure for a period not exceeding 3 years. The terms and conditions for the grant of protection laid down were as follows:

(1) That the industry is established and conducted on sound business lines:

2(a) That having regard to the natural and economic advantages enjoyed by the industry and its actual or probable cost, it is likely within a reasonable time to develop sufficiently to be able to carry on successfully without protection or State assistance;

or

(b) That it is an industry to which it is desirable in the national interests to grant protection or assistance, and the probable cost of such protection or assistance to the community is not excessive.

On fulfilling condition (1) and condition (2)(a) or (b), the industry would be deemed to have established its claim for protection, and the Board is to recommend the necessary measure of protection. It was further recommended that the Board should complete its inquiries with all possible expedition and should submit its Reports as soon as investigation of the claim of an industry was concluded.

A comparison of the above conditions with the conditions known as the Triple Formula laid down by the Fiscal Commission does show a marked change in outlook and in accent. While the first condition that the industry is established and conducted on sound business lines may not present much difficulty under ordinary circumstances it is likely to create difficulties if the same would be sought to be applied in a stricter manner. It would largely remain a matter of interpretation whether an industry is run on sound business lines or not In fact, this condition should be applied while determining the quantum of protection rather than making it a basis for the grant of protection. Condition (2)(a) lays down whether the industry in question is likely within a reasonable time to develop sufficiently to be able to carry on successfully without protection or State assistance. This particularly is a new version of the old condition that an industry in order to receive protection must be able to dispense with it in due course. As has been already observed before, it emphasizes an obvious aspect of the principle of protection that no industry which is likely to become a burden on the community should be protected except on broad national grounds. It is feared that in view of the present uncertain conditions which are likely to prevail in the near future, the task of the Board is likely to remain more or less that of guesswork as to the future course of development. The Board at best can only attempt to assess in general terms what the competitive capacity of a particular industry is likely to be in the near future. It is presumed that the Board is not expected to apply this condition very rigorously in view of the existing abnormal conditions, which preclude any possibility of a reasonable forecast as to the future. The most welcome feature of the conditions laid down is Clause (2)(b), which requires the Board to examine whether the industry applying for protection is one, to which it is desirable in the national interest to grant protection or assistnce

and whether the probable cost of such protection or assistance to the community is not excessive. This condition, in the opinion of my Committee, is a definite improvement on the condition laid down by the Fiscal Commission and provides scope for a more liberal interpretation. The term 'national interest', it is presumed, will be interpreted in a broad and comprehensive manner, so as to include diversification of national economy, and will not be confined merely to those industries which are important either from strategic or defence point of view.

It may be observed that in the implementation of a fiscal policy it is not merely the question of liberalising conditions of protection but what is more relevant is the spirit in which the conditions are interpreted and applied with a view to bring about a rapid industrial development in the country.

Question 20.—It is understood that the total number of cases referred to the interim Tariff Board was 49 and the Board reported on 42 cases during its term of office. Out of this, 38 were war-time industries and 4 were old-established industries, viz. cotton textiles, steel, paper and sugar. The Board was subsequently re-constituted in 1947 with certain additional functions. The re-constituted Tariff Board completed 12 tariff inquiries upto January 1949, and has a programme of investigating new cases besides pending inquiries and reviewing cases of pre-war as well as war-time industries, which received protection on the recommendation of the interim Tariff Board. For a large number of cases examined by the Tariff Board, the main recommendation was for the conversion of the existing revenue duties into protective duties. In 4 cases duties were increased on the Board's recommendation and in about 10 cases new items of classification were included in the Customs Schedule on which the protective duties were imposed. In about 8 cases, no protection was recommended by the Board. In cases of investigation re: the continuation of protection, the Board recommended withdrawal of protection in respect of cotton textiles, steel, paper and magnesium chloride and silver thread. My Committee note that in the earlier stages on an average 8 to 10 months passed between the date of the submission of the Report and the date of Government's orders on the same, but they understand that this delay was largely due to the impending constitutional changes and the preoccupations with the problems relating to Partition with the result that the decision on some of the recommendations of the Board had to be unavoidably postponed. The delay has been minimised in the subsequent inquiries and my Committee hope that in future it will be an accepted convention with Government that they will notify their decision within a period of 2 months of the date of submission of the Report by the Board. It is particularly refreshing to note the spirit of helpfulness which the Tariff Board have shown in respect of the needs and claims of our industries seeking protection. The Tariff Board has also been keenly alive to the need for giving adequate protection to the industries and to that extent wherever necessary they have alongside with the protective tariff recommended the imposition of quantitative restrictions.

SECTION C.

Review of the effects of past Tariff Policy

NOTE: Relevant Statistical Data, pertaining to questions 21 to 27 can be supplied by individual units in the industries concerned, or may be compiled by the Ministry of Industry and Supply.

Question 28.—The revenue tariffs imposed in the past have had no appreciable effect in general on the growth and development of our industries and on the course of our export and import trade, which were all determined by other factors discussed in detail below in the relevant sections. Nothing was

done to promote key or basic industries for a long time since the advent of the British Rule nor to assist the depressed indigenous industries. In the early period the moderate revenue tariff was gradually reduced and finally entirely removed between 1882 and 1894. This was revived in 1896 with a general rate of 5 per cent. which remained in force with minor modifications till 1916. With the complete change in tariff policy thereafter due to war conditions, in 1922 the general rate was raised to 15 per cent. with higher duties on certain articles, chiefly luxuries. Since the recommendation of the Fiscal Commission in 1922 for a policy of discriminating protection was accepted, the claims of various industries were investigated and as a result customs became the chief single item of revenue to Government in the country without which it should have been difficult even to balance the budgets since 1916. If the protection policy probably preserved Indian industries from the contraction which the Depression might have produced, there has been little or no indication from the trends noticed of any resulting acceleration in the tempo of industrialisation On the other hand there have even been complaints that Indian industries utilising imported raw or semi-manufactured goods have been injured by the revenue duties some of which were therefore reduced or removed on the recommendation of the Tariff Board. After 1922, the revenue duties were unaltered till 1931 when owing to the depression and the serious budgetary position it became necessary to increase taxation and there was an increase in the tariff rates. This was followed by the modifications arising out of the Ottawa Trade Pact, the acceptance of the Imperial Preference and other subsequent trade agreements with Britain. The one conclusion that can safely be drawn regarding our revenue tariffs, is that while no doubt they constituted an important source of income to Government, they failed to have a direct or indirect influence in furthering our industrialisation and expansion of foreign trade.

Quesiton 29.—(a) It would not be correct in general to attribute the changes noticed in the course of our foreign trade to the tariff policy pursued by Government though they had the negative effect of preventing the growth and development of industries and thereby canalising trade into channels that helped Britain to draw the raw materials from and supply manufactures to India. The traditional pattern of our foreign trade may be said to be partly the result of the lack of an appropriate tariff policy suited to the needs of the country. In effect, therefore, during the period 1923 to 1939, the general position remained the same with no significant changes till 1929-30 when the quantum of our foreign trade varied between Rs. 552 and 604 crores. In 1930-31 of course there was a contraction to Rs. 399 crores which further fell down to Rs. 324 crores in 1938-39. Regarding the charter and geographical distribution of our import and export trade there were minor changes which did not wholly alter the traditional pattern.

(b) In a period of general contraction in trade consequent on the World Depression it is difficult to measure the extent of loss or improvement noticed in our domestic trade consequent on the tariff policy pursued by Government. The only possible inference is, as stated above, that there was no significant improvement noticed in the trends of domestic trade and the period was characterised more by a recession in trading activities.

SECTION D

Factors in the Formulation of a new Fiscal Policy.

Quesiton 31.—On a careful review of the trends of foreign trade during 1939—45 (the war period) and 1946—49 (the transition period) my Committee find that there has been a striking change in the composition and direction of our external trade which has considerably altered the traditional pattern. They

do not of course subscribe fully to the view that this change is indicative of the growing industrialisation of the country. In fact the economic factors in the transition period, particularly in the last two years, have revealed the difficulties in maintaining this altered pattern of trade which has of course been to the advantage of the industrial development of the country and in conformity with the reconstruction policy of Government to shape the structure of our foreign trade according to the needs of a changing and dynamic internal economy moving towards higher levels of production, employment, efficiency and welfare in the future. Thus the significant changes brought about by war-time emergencies in the structure of foreign trade accord with our basic principle of reconstruction, viz. that the course of trade should be developed only in such of those surplus raw materials and resources after satisfying fully the internal demands and in semi-processed and manufactured articles which should give a continuous impetus for the expansion and growth of industries in India.

During 1939—45, a rapid increase was noticed in the value of the export trade in goods wholly or mainly manufactured, allowance being made for the inflation in prices and secondly, manufactured goods have represented a steadily declining proportion of India's imports and a steadily increasing proportion of her exports. The percentage share of manufactures imported into the country was 60·8 in 1938-39 against 38 in 1943. There was a sharp rise in imports of raw materials from 21·7 per cent. in 1938-39 to 53·81 per cent. in 1943-44. On the export side manufactures recorded an increase from 30 per cent. to 50·4 per cent. Considering separately the various items which normally constituted the export and import list, on the export side raw jute, raw cotton and waste and oilseeds declined in their importance while cotton and jute manufactures showed a rapid improvement besides mineral ores, spices, tea, tobacco and other goods. On the import side except for essential consumption goods, raw materials and capital goods, other kinds of luxury articles and non-essential manufactures completely disappeared. This trend was of course subject to frequent changes in respect of specific goods on account of the modifications in the restrictions and regulations on trade from time to time. However in the view of my Committee, the one important advantage in the shift in our external trade was, as observed above, the increase in the exports of semi-manufactured and manufactured goods. Secondly, there was also a change in the direction of trade, an increasing proportion flowing to Empire countries during the war period but later from 1945 a comparatively increasing percentage being directed to non-Empire countries, particularly U.S.A., and countries in the Middle East. This again is a relative advantage of importance which may be fully utilised in developing industries for export trade. One disturbing change in the foreign trade position during 1946—49 is that of the continuous adverse balance noticed on account of the heavy and costly imports of food and essential capital equipment and lack of current resources to meet the above which has created a problem in our balance of payments position. In the last two years it has also become clear that our export capacity falls short of our import requirements and this has been further affected by the removal from our export list of staple exports, as jute and raw cotton, consequent on partition. The present position in respect of external trade is one of reduced quantum in exports of the traditional items and the gradual loss of markets captured during the war and an increasing flow of imports which make it difficult to maintain the advantages gained during the war in the composition and direction of the trade. This is also influenced by external factors as that of a gradual price fall in the world markets compared to an inflated price level within the country.

Question 32.—The question covers various aspects of Government's industrial and trade policies and for the purpose of analysing the broad effects

of these polices on our import and export trade and the growth and development of our industries it is not necessary to refer to the several vicissitudes through which they have passed. My Committee would confine themselves to the general effects on trade and industry of the various legislative and administrative measures taken to control and regulate our foreign trade. Taking our foreign trade, the emergency conditions created by the war necessitated the imposition of various controls on imports and exports which were in operation till the end of hostilities after which there was a comparative liberalisation of the import policy dictated by the pent-up demand for the various goods within the country. But it was soon realised that this liberal import policy could not be continued as there was a continuous drain on the foreign exchange resources and a modification was necessary. From May 1947 our import policy has been mainly governed by the availability of foreign exchange as also of the conservation of the exchange resources at the disposal of Government, thus naturally leading to the fixation of ceiling, quotas, etc. While it may be considered sound to limit imports to the extent of the availability of foreign exchange resources the actual working of the control system has adversely affected our external trade. The principle of conserving the exchange resources and an efficient utilisation of the same restricting imports to essential capital equipment and raw materials has not been applied in the proper manner. Consequently a grave dissatisfaction has always existed among the trading community on the ineffective and inefficient administration of the import controls and the various grievances of the public have been Communicated to Government through the representative bodies of trade and commerce. The grievances did not arise so much, as mentioned before, from the rigidity of the control policy as from the administrative vagaries. The net result of the unco-ordinated and planless manner of administration of export and import controls has been a shrinkage in the quantum of trade during the period as well as a widening of the gap in the balance of payments. Further, the restrictions and regulations regarding imports neither helped Government to fight inflation as they expected nor have they helped to secure essential capital equipment for the growth and development of our industries. The regulations on our export trade added to the complexity of the situation and further reduced the capacity to pay for the much needed imports. The necessity for a review of the export policy and the need for a vigorous export drive was not realised until lately and the result has been the loss of export markets in respect of our major items as cotton piecegoods, hides and skins, oilseeds and several manufactured goods. On the whole the effects of the legislative and administrative measures have not been successful in planning our foreign trade so as to help the growth and development of industries.

Question 33.—The fundamental premises on which the Fiscal Commission, 1921-22, based their recommendations were that industrial development will bring about new sources of wealth, encourage accumulation of capital, enlarge public revenues, provide more profitable employment for labour and reduce excessive dependence of the country on agriculture. These premises still hold good, inasmuch as the country has neither far advanced in industrial development nor her resources have been fully exploited. However the increasing powers which Government have taken upon themselves in regulating and shaping the pattern of our export and import trades must obviously have a direct effect upon the pace and direction of industrialisation as indicated previously.

Question 34.—It would be extremely difficult to determine the relative importance either of fiscal or non-fiscal measures in any definite manner under the present-day conditions. While it may be necessary to resort to fiscal measures, such as tariffs combined with quantitative restrictions for protecting war-time

industries, it may be equally necessary to facilitate the supply of industrial raw materials, essential plant and machinery, technical personnel as also concession in freight rates to reduce the present inflated cost of production and thereby strengthening the competitive capacity. My Committee, therefore, consider that under the present state of our economy, it would be necessary to combine both fiscal and non-fiscal measures in a judicial manner with a view to protecting and developing industries.

Question 35.—As indicated in reply to Question 31, the traditional pattern of trade has undergone a striking change, and there has been an increase in the export of processed and manufactured goods with a decrease in the export of raw materials. Similarly, there has been a decrease in the import of manufactured goods and a small increase in import of raw materials. With the increased industrial development of the country, it would be necessary to maintain this altered pattern in the composition of our foreign trade. An appropriate tariff policy can largely further the expansion of our external trade on the above lines by facilitating the imports of essential raw materials capital goods and machinery necessary for the implementation of the programme of industrial development.

Question 36.—The objectives of tariff policy in the short period will necessarily be governed by post-war economic situation prevailing in the country. As is well known since the cessation of hostilities the economic situation has been characterised by persistent inflationary trends as well as difficulties in respect of balance of payments position largely resulting from heavy imports on account of food deficit and imports of capital goods and machinery. This has created an imperative necessity for an extensive export drive, particularly to Hard Currency countries.

It is, therefore, clear that the objectives of the tariff policy in the short period should be (i) to maximise production both industrial and agricultural by all possible means; (ii) to protect and develop the essential war-time industries as also a number of other industries which had come into existence during the difficult period and have helped to sustain the national economy; and (iii) to develop and assist such industries, which can command an export market, so as to be able to adjust the present adverse balance of trade in an advantageous manner to the country.

Question 37.—Yes.

Question 38.—My Committee have already indicated in the preliminary observations as to how the policy of discriminating protection proved to be tardy and ineffective hardly appropriate for the requirements of an under-developed and agricultural country like India and the need for replacing the same by a policy of full-fledged protection directly related to the country's need for rapid industrialisation. In respect of defence industries, the Fiscal Commission (1921-22) recommended the principle that any industry which is essential for the purpose of national defence must be developed and protected. irrespective of the general conditions laid down for protection to other industries. As for the basic and key industries, their development has become more urgent as recognised by the Industrial Policy of the Government of India, and in view of that special priority will have to be given to the establishment of such industries which are integral to any scheme of industrialisation. These industries will have to be developed on the sole consideration of their importance to the national economy and as such detailed considerations which generally apply in respect of the development of a particular industry will not apply to them. The Tariff Board should be free to recommend such measures of assistance and protection as may be best calculated to promote rapid growth

of such industries in the country. Besides, the Tariff Board must be instructed to consider the cases of not only such lines of production as are established in a particular industry but must also on a broader interpretation of the principles of protection recommend the development of such allied branches of production in the same industry which are mutually inter-dependent and should be developed in the best interests of the national economy. Instead of taking a piecemeal and static view of the industrial development of the country, the Tariff Board must take a comprehensive view of the industrial development of the country as a whole. The Tariff Board must further be empowered to consider the cases of such new industries as are deemed necessary for filling in gaps in the industrial structure of the country and are referred to for investigation from time to time by the Planning Commission. An assurance for a full-fleged protection to such industries will provide the requisite incentive for the development of new industries by attracting the necessary initiative on the part of the entrepreneur and capital.

As to the condition which should govern the grant of protection or assistance to a given industry, my Committee hold that the restrictive conditions embodied in the Triple Farmula, need to be completely removed. As they have pointed out in their detailed examination of the first condition re: the possession of natural advantages, the specific condition in respect of the availability of raw materials should be dispensed with. It should be open to the Tariff Board to recommend protection even in cases of industries where raw materials may not be available in the country and yet there may exist sufficient scope for the development of certain industries either for meeting requirements of the domestic market or the potential export markets. The only relevant consideration that will have to weigh will be whether the industry is essential to the national interest and the same is likely to contribute to the economic development of the country, irrespective of the fact whether raw materials required for the industry are available in the country or not. My Committee, therefore, suggest that the main conditions which should govern the recommendation of protection by the Board should be

(i) That the industry is sufficiently important from the point of view of the national interest and is in need of protection or assistance; or

(ii) That the industry is in a position to command an adequate home market or a potential export market, and that the burden of such protection or assistance to the community is not excessive.

While the consideration that the industry within a reasonable time should be able to carry on successfully without protection or State assistance is important, it is not desirable to incorporate the same as a condition precedent for the grant of protection. In fact, it will be open to the Tariff Board while reviewing the progress of a protected industry to examine whether it is likely to prove a permanent burden to the community and whether the protection granted to such an industry deserves to be extended or not. My Committee would reiterate their view that the conditions prescribed for the grant of protection should not be unduly restrictive and stringent but must be liberally conceived.

Question 39.—My Committee believe that priorities will have to be determined in the light of the industrial policy as laid down by the Government of India, which emphasizes the primary need for expansion of production both agricultural and industrial and in particular on the production of capital equipment and goods necessary for meeting the basic needs of the people, and commodities the export of which will increase the earnings of foreign exchange

of the country. Industries from this point of view can be classified in different categories, such as:

(i) industries which are of strategic and national importance—defence industries,

(ii) basic and key industries which are essential for the industrial expansion of the country; and

(iii) all other industries which mainly comprise the consumer goods industries.

The above categories indicate an implicit scheme of priorities and my Committee would only add that the selection of industries should be made having due regard to the need for evolving a balanced economy for the country. They would, however, add that in respect of new industries which may be either belonging to the basic or key industries group or to the group of consumer goods industries which are considered necessary from the point of view of the industrial development of the country, Government should announce their policy of the measure of protection and extent of assistance which would be granted to such industries. This, in the opinion of my Committee, will greatly facilitate the task of the industrialist as well as induce prospective investors for the purpose of capital formation. In this connection it may be added that suitable measures must also be adopted for the development of national banking, shipping and insurance, since they play an important part in the development of our industries. The above is only a rough classification and since the development of various industries is inter-dependent, my Committee do not favour any rigid classification of priorities. Regarding the manner in which the conditions of protection should be applied to these different categories of industries, my Committee have already indicated their views in their reply to Question No. 38.

Question 40.—Yes.

Question 41.—Amongst the various alternative methods used for protecting industries in modern times, may be mentioned: (1) Protective Import Duty, (2) Bounty or subsidy, and (3) Quantitative restrictions of imports; mention may also be made here of the system of pool prices.

(1) *Tariffs.*—In spite of the fact that protective technique has assumed new developments particularly in the inter-war period, tariffs yet continue to play an important part not only as a means of raising revenue but also as an important instrument in the hands of the State to direct economic life and to determine the flow of international trade. It is well known that revenue duties occupy a very important place in modern public finance and they are primarily intended to secure revenue to meet public expenditure. Tariff duties levied with the specific object of protecting industries are intended to bring about a most efficient and effective utilisation of national resources. Under the shelter of protective tariffs, it is expected that the country should be able to build up a fully developed manufacturing power of its own in course of time.

Tariff duties have also been used in recent times for the purpose of commercial bargaining, whereby multiple tariffs are used to extend tariff concessions to imports from different countries in accordance with the amount of favourable treatment received from those countries. Amongst other additional uses of the tariffs may be mentioned: granting of preferential treatment to the products of certain countries or restoring an equilibrium in the adverse balance of trade position.

(2) *Bounty or Subsidy.*—Bounty or Subsidy is another device, by means of which, as in the case of tariffs, the trade is sought to be indirectly regulated through price mechanism. Since the depression, subsidies have come to play an increasingly important role in the technique of protection and it is accepted as an important method for stimulating internal industrial expansion. Subsidies or bounties involve either direct financial assistance or may assume the form of indirect assistance in the shape of remission of taxes, drawbacks of various sorts, etc. The indirect assistance may be through the grant of long-term loans or credits to the manufacturers or exporters at low rates, or the Government may offer facilities through export credit insurance schemes.

Several instances can be pointed out where industries have been developed by countries like the U.K. and the U.S.A. by resorting to various forms of subsidies that have been mentioned above. The case of subsidies in respect of the British Beet Sugar industry is an outstanding example of the use of subsidy whereby the industry was able to make rapid progress, the output of sugar increasing from 24,000 tons in 1924 to six lakhs tons in 1934. Reference may also be made to the cases of beef subsidies, shipping subsidies and other export bounties utilised by the U.K. both for encouraging production and export.

For subsidy, as a method of protection, several advantages are claimed: (i) that subsidies are more specific in their application and better amenable to control than tariffs, (ii) that while the burden of bounties is shifted to the general tax-payer, the burden of tariffs falls upon the consumers who are generally poor, and (iii) that bounties are administratively more convenient and can be managed more cheaply. As against the advantages, it is pointed out that the system of bounties or subsidies presume expanding sources of revenue necessary for providing funds, for the payment of subsidies. In an industrially underdeveloped country such sources of revenue are few and as such it would not be practicable to resort to those methods on a large-scale. For a country like India subsidies have to be used primarily for the developmental purpose. It is necessary to differentiate here between subsidies which are used primarily for the purpose of developing industries in under-developed and agricultural countries in a legitimate manner and the subsidies which are used with a view to exporting or dumping goods, a system likely to result in creating serious repercussions on international trade.

It is further pointed out that while tariffs give uniform assistance to all units of the industry and encourage the development of new industries, bounties are limited in their scope, inasmuch as they apply to only those units which are already in existence and thereby create a tendency towards the growth of monopolisation. Again, a difficulty is experienced in the application of subsidies in respect of such industrial products which are of varying sizes and quality. The system is easily applicable only to those products which are relatively uniform in size or quality. It is further argued that tariffs are preferable to subsidies from the financial point of view inasmuch as tariffs provide a source of revenue whereas subsidies involve an increase in the national expenditure.

In the light of the above, while the conditions in India may not permit too frequent a use of the method of subsidies or bounties, it is clear that in certain cases where the grant of subsidies has been best calculated to protect the industry and can be justified on grounds of national policy, the Tariff Board must be free to recommend such a measure if and when necessary. There may be special cases such as the development of a new industry or an industry of strategic importance or those falling in the category of basic or key industries which may have to be given special consideration. In the opinion of my Committee, in the implementation of the plan of rapid industrialisation of the country, if judiciously utilised, direct and indirect form of assistance can play a very important role as a measure of protection.

Besides, concessions may be granted by exempting imported machinery and materials used for the development of the industry through Customs duties. In fact, the indirect form of assistance may be through guarantee of investment of capital in new industrial enterprises or through freight concessions on the transport of raw materials. Finally, the Government may also come forward with an assurance to purchase a certain proportion of the industry's output at an agreed price. For an industrially backward country, the important role which subsidies can play in the task of bringing about rapid industrialisation of the country can hardly be overestimated.

(3) My Committee do not favour the system of pool prices as exemplified by the case of aluminium price pool as a method of protection. The pool arrangement was a war-time expedient and is unsuitable to conditions of free market and healthy competition. My Committee, instead, favour a positive grant of assistance in the form of a subsidy which can effectively help an industry to survive and to consolidate its position during the critical period when it needs to be protected.

(4) *Quantitative Restrictions.*—As compared to tariffs and subsidies, the use of quantitative restrictions has been acclaimed as the most effective technique of protecting industries against the inroads of foreign competition as also an important instrument of commercial policy for safeguarding the economic structure of a country during periods of emergency. Again, as compared to tariffs, quotas are both effective and flexible and can be utilised as a definite means of effecting quick and drastic reduction of imports with a view to safeguarding the imminent danger that may threaten domestic industries. The inevitable result of the system of import quotas is to eliminate the scope for any price adjustment and limit the foreign supplies so as to give an assured and guaranteed market to domestic production. Direct quantitative control is normally effected through quota and licensing systems but other indirect methods also have been invogue by which quantitative restrictions have been imposed, such as operation of export and import monopolies, tariff quotas, exchange controls, etc.

As stated above, the object in resorting to the quota system is to bring about an effective and prompt regulation of imports. However, there are several other considerations which necessitate the imposition of quantitative restrictions, such as regulation of the balance of payments or trade balances, maintaining internal price levels as an instrument of commercial bargaining, exchanging of specific commodities on a barter basis, etc. From the point of view of an under-developed country, the quotas have a prime significance in terms of rendering definite assistance for the development of industries. Besides, they serve as a very effective instrument against methods of unfair competition, such as dumping which result in flooding the market with imports and against which the normal methods of tariff protection or such other devices prove ineffective.

It is a matter of common knowledge that India resorted to the policy of import control as a war-time measure and during the post-war period the same has been continued with a view to the conservation of her foreign exchange resources and to meeting the difficult situation created by critical shortages in essential goods. It is well known that industrially advanced countries like the U.K., U.S.A., Germany, France and others have resorted to the expedient of quotas during the inter-war period on an extensive scale as an emergency measure and even sometimes the same was used as a weapon of commercial warfare. Great Britain adopted the quota system to protect her agricultural interests against the heavy flood of imports during the critical conditions created by world depression. Accordingly, under the Agricultural Marketing Act of 1933 measures were devised to subject agricultural products, such as meat,

milk, eggs, poultry, etc. to import regulations. Similarly, in pursuance of the new policy of economic autarchy Germany extensively used the weapon of quotas in order to achieve its objective of self-sufficiency. France too adopted this method on a large scale with a view to reducing the import surplus, and reserving a large part of the French market for home producers. In fact, during the inter-war period almost all the European countries resorted to the technique of quantitative restrictions by virtue of numerous trade agreements signed between different countries during the Thirties. This naturally led to the abuse of the technique of quantitative restrictions inevitably resulting in discrimination among suppliers, uneconomical diversion of trade and international friction and ill-will. It is in this context that strong opposition to direct import control, particularly from the industrially advanced countries, can be understood. These countries having developed their industrial structure under the shelter of protection are now in greater need of stabilising their economy and finding outlets in terms of expending markets abroad.

While it is true that quantitative restrictions should not be used as a weapon of commercial warfare it should be emphasized that if used with due restraint this method can be very useful as an effective instrument for ensuring speedy development of industries particularly in industrially backward countries. It has been recognised even by those who object to the use of quantitative restrictions that during the post-war period in view of the shortages of supplies and the imperative need for meeting obligations of foreign exchange, most of the countries will have to regulate their trade by the imposition of quotas. It has also been accepted that quotas will have to be resorted to for the protection of war-time industries and for easing the balance of payments difficulties. Besides, for an industrially backward country even from the long-term point of view quantitative restrictions will be an indispensable instrument for giving effective protection to domestic industries against unfair competition and dumping. My Committee are of the view that an industrially backward country must have the fullest freedom to use quantitative restrictions both as a defensive and as a developmental measure. The Tariff Board, should, therefore, be free to recommend the use of quotas either singly or in combination with tariffs, according to the needs and requirements of the industries and exigencies of the situation.

Question 41.—(*b*) & (*c*) The imposition of import duties is commonly accepted as a method of protection but recently it has been recognised that tariff protection alone is not adequate in numerous cases, and it has become imperative to combine tariff with quantitative restrictions for protecting industries against unfair competition and dumping. My Committee suggest that the Tariff Board should be free to determine appropriate measures of protection in each case on its own merits and may recommend such protection in any one of the forms of tariff aid, subsidy, quota restriction or a combination of these measures, according to the needs and requirements of a given industry.

Question 42.—Please refer to reply to Question 17(iii)—Measures against dumping.

Question 43.—(*a*) My Committee as a general rule do not favour the imposition of export duties, inasmuch as the same fall on the domestic producers and discourage production. However, they do not deny the role of export duties in exceptional circumstances as an effective method of protecting a home industry.

(*b*) (i): Yes. In respect of such consumer goods as are found to be in critical shortage, export control may be resorted to in the form of quantitative restrictions, on a careful balancing of the needs of domestic consumers and the requirements of maintaining our position in the export markets. In regard to domestic supplies of raw materials for utilisation of industries in the country

Besides, concessions may be granted by exempting imported machinery and materials used for the development of the industry through Customs duties. In fact, the indirect form of assistance may be through guarantee of investment of capital in new industrial enterprises or through freight concessions on the transport of raw materials. Finally, the Government may also come forward with an assurance to purchase a certain proportion of the industry's output at an agreed price. For an industrially backward country, the important role which subsidies can play in the task of bringing about rapid industrialisation of the country can hardly be overestimated.

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(4) *Quantitative Restrictions.*—As compared to tariffs and subsidies, the use of quantitative restrictions has been acclaimed as the most effective technique of protecting industries against the inroads of foreign competition as also an important instrument of commercial policy for safeguarding the economic structure of a country during periods of emergency. Again, as compared to tariffs, quotas are both effective and flexible and can be utilised as a definite means of effecting quick and drastic reduction of imports with a view to safeguarding the imminent danger that may threaten domestic industries. The inevitable result of the system of import quotas is to eliminate the scope for any price adjustment and limit the foreign supplies so as to give an assured and guaranteed market to domestic production. Direct quantitative control is normally effected through quota and licensing systems but other indirect methods also have been invogue by which quantitative restrictions have been imposed, such as operation of export and import monopolies, tariff quotas, exchange controls, etc.

As stated above, the object in resorting to the quota system is to bring about an effective and prompt regulation of imports. However, there are several other considerations which necessitate the imposition of quantitative restrictions, such as regulation of the balance of payments or trade balances, maintaining internal price levels as an instrument of commercial bargaining, exchanging of specific commodities on a barter basis, etc. From the point of view of an under-developed country, the quotas have a prime significance in terms of rendering definite assistance for the development of industries. Besides, they serve as a very effective instrument against methods of unfair competition, such as dumping which result in flooding the market with imports and against which the normal methods of tariff protection or such other devices prove ineffective.

It is a matter of common knowledge that India resorted to the policy of import control as a war-time measure and during the post-war period the same has been continued with a view to the conservation of her foreign exchange resources and to meeting the difficult situation created by critical shortages in essential goods. It is well known that industrially advanced countries like the U.K., U.S.A., Germany, France and others have resorted to the expedient of quotas during the inter-war period on an extensive scale as an emergency measure and even sometimes the same was used as a weapon of commercial warfare. Great Britain adopted the quota system to protect her agricultural interests against the heavy flood of imports during the critical conditions created by world depression. Accordingly, under the Agricultural Marketing Act of 1933 measures were devised to subject agricultural products, such as meat,

milk, eggs, poultry, etc. to import regulations. Similarly, in pursuance of the new policy of economic autarchy Germany extensively used the weapon of quotas in order to achieve its objective of self-sufficiency. France too adopted this method on a large scale with a view to reducing the import surplus, and reserving a large part of the French market for home producers. In fact, during the inter-war period almost all the European countries resorted to the technique of quantitative restrictions by virtue of numerous trade agreements signed between different countries during the Thirties. This naturally led to the abuse of the technique of quantitative restrictions inevitably resulting in discrimination among suppliers, uneconomical diversion of trade and international friction and ill-will. It is in this context that strong opposition to direct import control, particularly from the industrially advanced countries, can be understood. These countries having developed their industrial structure under the shelter of protection are now in greater need of stabilising their economy and finding outlets in terms of expending markets abroad.

While it is true that quantitative restrictions should not be used as a weapon of commercial warfare it should be emphasized that if used with due restraint this method can be very useful as an effective instrument for ensuring speedy development of industries particularly in industrially backward countries. It has been recognised even by those who object to the use of quantitative restrictions that during the post-war period in view of the shortages of supplies and the imperative need for meeting obligations of foreign exchange, most of the countries will have to regulate their trade by the imposition of quotas. It has also been accepted that quotas will have to be resorted to for the protection of war-time industries and for easing the balance of payments difficulties. Besides, for an industrially backward country even from the long-term point of view quantitative restrictions will be an indispensable instrument for giving effective protection to domestic industries against unfair competition and dumping. My Committee are of the view that an industrially backward country must have the fullest freedom to use quantitative restrictions both as a defensive and as a developmental measure. The Tariff Board, should, therefore, be free to recommend the use of quotas either singly or in combination with tariffs, according to the needs and requirements of the industries and exigencies of the situation.

Question 41.—(*b*) & (*c*) The imposition of import duties is commonly accepted as a method of protection but recently it has been recognised that tariff protection alone is not adequate in numerous cases, and it has become imperative to combine tariff with quantitative restrictions for protecting industries against unfair competition and dumping. My Committee suggest that the Tariff Board should be free to determine appropriate measures of protection in each case on its own merits and may recommend such protection in any one of the forms of tariff aid, subsidy, quota restriction or a combination of these measures, according to the needs and requirements of a given industry.

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(*b*) (i): Yes. In respect of such consumer goods as are found to be in critical shortage, export control may be resorted to in the form of quantitative restrictions, on a careful balancing of the needs of domestic consumers and the requirements of maintaining our position in the export markets. In regard to domestic supplies of raw materials for utilisation of industries in the country

which are in absolute short supply my Committee consider it necessary to prohibit export of such raw materials as iron and steel, cement, etc. Again, in regard to minerals in respect of which the country is at present self-sustaining or in short supply, there should be complete prohibition of exports. In regard to minerals for which there exists an exportable surplus, such as manganese ore, bauxite, magnasite, etc., my Committee suggest that steps should be taken to export the same in a processed form, than in a raw state.

Question 44.—An established industry may be given an export stimulus by any one of the following three methods, *viz.* (i) subsidies, (ii) tax relief, and (iii) freight relief. While a direct method of subsidy is considered more effective for stimulating exports, the same is likely to meet with objection from importing countries, as representing unfair competition, adversely affecting the terms of trade. My Committee understand that one of the methods used for stimulating exports is that of taxing the profits of export trade at a lower rate than the profits of home trade, as an alternative form of inducement. The feasibility of applying this method deserves to be carefully considered. Besides, freight relief can also be combined with the above method in a suitable manner. In this connection it is hardly necessary to emphasize the role national shipping can play in fostering our foreign trade. It is well known that in foreign countries shipping has played a very significant part in increasing their external trade by providing appropriate facilities. The encouragement of national shipping and carrying of merchandise in our own bottoms will appreciably help in adjusting our balance of trade position inasmuch as it will virtually constitute invisible exports. This can be possible only if Government adopts positive measures for the development of national shipping.

Question 45.—The method generally adopted by the Tariff Board in fixing the quantum of protection has been that of comparing the fair ex-works price or the fair selling price for the home manufacturer, with the landed cost (ex-duty) of the imported product. However, certain inherent difficulties shall have to be taken into consideration while adopting the procedure. Allowance must generally be given for cost due to freight differentials for transport of indigenously manufactured goods from the port of manufacture to other ports. This is necessary in view of the fact that the imported articles are quoted at the same c.i.f. value at all the Indian ports, while the indigenous products have to bear the freight for transport to different ports in India as an additional factor. In the past, foreign manufacturers have shown reluctance to disclose their cost of manufacture as for example in the case of the Swedish Match Company and recently in the case of National Carbon Company. There is again the question of practical difficulty in arriving at accurate cost in numerous cases, where particularly several products are jointly supplied and no system of cost accounting can work out the cost for each item with a certain degree of accuracy. The cost of foreign manufactures do not become easily comparable to the cost of Indian manufactures inasmuch as similar conditions do not prevail in both the countries and sometimes the foreign costs are distorted by fluctuations in exchange and methods of presentation of the accounts. Nor is it always possible to base the indication of the future course of prices on the basis of the current import prices.

The concept of fair selling prices as adopted by the Tariff Board which considered not only the present fair selling prices but also tried to estimate the future fair selling prices was worked out on the basis of a representative firm and not on the actual cost of production of any particular firm. Normally in arriving at reasonable cost of production the Board took into consideration various elements in the cost of production, such as working costs, overhead charges and the manufacturer's profit and the possible economies that were available to the factory which had the advantages of suitable location as well as efficient management. It must be accepted that however scientific the

nature of the attempt may be, the calculations regarding the future are more or less likely to be tentative and approximate in character. As pointed out by Prof. Taussig "Even the most refined system of cost accounting gives at best a basis for inferences, not something which can be ascertained with strict accuracy, only rough approximation...... Who could say in advance how things would turn out in the long run? How much would have to be allowed for depreciation, run at half-time, contingencies of all sorts? What is the normal or reasonable rate of return in a manufacturing industry of this kind? A public body (say, a Trade Commission) charged with ascertaining or fixing a fair price could not possibly do more than settle an approximate standard."

There is another aspect, *viz.* the element of revenue duties in the cost of raw materials and machinery imported by various industries which tend to inflate prices. As observed by the Tariff Board on Match "It is also difficult to estimate with any accuracy how the depreciation or other items of overhead expenses are affected by the revenue duty on steel, building material, cement and other articles used by the industry in equipment or manufacture. It is clear, however, that a substantial burden is imposed on the industry by the revenue duty and that in order to place the Indian manufacturer on a footing of sufficient equality with the foreign manufacturer it is necessary to take this into account in considering whether the industry satisfied the third condition laid down by the Fiscal Commission."

My Committee, therefore, submit that while the same method may be applied in arriving at the necessary measure of protection based on the calculation of costs, due regard must be given to certain special factors, such as high cost for capital goods and equipment during war and post-war periods and the replacement costs of the same. Besides, the object underlying the procedure is to arrive at the minimum rate of protection necessary for safeguarding the industry, but at the same time the Board must also take a long-term view and must see that the protection is adequate enough to attract capital to the industry, maintain it at an up-to-date level of efficiency and promote utilisation of the natural resources of the country. Protection should not merely aim at preserving the industry over a period of years, but must also seek to provide sufficient incentives to the industry to improve its technique and working conditions with a view to maximising the output and consequently lowering the cost of production. Further, this should not preclude the possibility of recommending the use of quotas alongside with protective duties wherever conditions indicate that the domestic industry is threatened with competition from abroad.

Questions 46 & 47.—When tariffs are imposed with a view to protecting industries they assume various forms, such as (i) *ad valorem*, (ii) specific, or (iii) compound. An *ad valorem* duty is based essentially upon the value of the commodity imported and is expressed in terms of a fixed percentage of the value per physical unit. The specific duty is a definite sum charged upon each weight or measure of the commodity imported. It may be observed that in most of the advanced countries, specific duties are more common and they have largely displaced the *ad valorem* duty. It may be relevant here to note that the interim and the reconstituted Tariff Boards have shown a special preference to specific duties over *ad valorem* duties. In the Report of the Indian Tariff Board on the aluminium industry, it is stated that a specific duty is perferred to an *ad valorem* duty, as it enables the measure of protection decided upon to be maintained more easily and effectively than by an *ad valorem* duty. It has been commonly accepted that the specific duties are more convenient to administer and it can be collected with ease and certainty. The difficulty which is experienced in respect of *ad valorem* duties, particularly while ascertaining fairly the value of the goods to be assessed, is not experienced in case of specific duties. Besides, the system

of *ad valorem* duties operates in a disadvantageous manner to the importer, particularly under conditions of rising prices, whereas in the case of a specific duty the importer can determine with reasonable precision the amount of duty payable by him, inasmuch as the duty will not be liable to fluctuate with the change in prices. As against the advantages mentioned, it may be noted that specific duties under conditions of rise in prices fail to give adequate protection intended to be afforded to a given industry. Again under conditions of a general fall in the level of prices protection may prove unduly excessive. Besides, the imposition of a specific duty presupposes that there will be little variation in the quality of the article concerned or that it would be possible to define the different qualities with considerable accuracy. In other words, this would involve an elcborate classification of different varities and qualities of numerous items in the Tariff Schedule.

There is the third alternative of what are known as mixed duties, in which the practice is to adopt either an alternative duty, *i.e.* a specific rate or an *ad valorem* rate, whichever was the higher, or a compound duty, *i.c.* a specific rate and *ad valorem* rate both together. In the Indian Tariff system, apart from the *ad valorem* and specific duties, which cover a large range of commodities, there are certain commodities which are assessed by means of a special combination of specific and *ad valorem* duties known as tariff valuation. This system involves the adoption of a system of specific duties adjusted from time to time to meet fluctuations in prices, the basis of the duty remaining a uniform *ad valorem* rate. It is claimed that this system combines advantages of both specific and *ad valorem* duties and the desirability of extending the same may be considered, particularly as a protective measure this system safeguards the interests both of the producer and the consumer during periods of price fluctuations.

Question 48.--Tariff quotas imply the quantitative limitation of goods imported at privileged rates, not, as in the case of ordinary quotas, of the quantitative limitation of imports. Imports in excess of the quota would no longer be refused admission, but would merely be subject to a higher duty. This means that any excess over a specified quantity will be subject to a higher degree of duty. The system of tariff quotas is looked upon as an intermediate stage between the system of protective tariffs and imports quotas. It is expected in course of time to pave the way for a return to ordinary tariff. To the extent that it does not prevent the flow of goods as under the system of absolute quotas, it is less restrictive and moderate in its effects. As to its utility, my Committee believe that it can be used with advantage during comparatively normal conditions as a protective measure to safeguard the interests of domestic industries without any serious restrictive influence on international trade. However, from the practical point of view, it is likely to present serious difficulties, inasmuch as it imposes unduly great burden on the administrative authorities. It will, therefore, be necessary to give careful consideration to the practical aspects of the question before utilizing the same as a protective measure.

Question 49.—On the question of a minimum or a maximum duration to be laid down for protective measures, my Committee are of the view that the protection granted to an industry should extend for a reasonable period so as to afford sufficient scope for the development and expansion of the industry. In this connection, the observations made by Prof. Taussig regarding resonable period to be provided for an industry to develop under the aegis of protection are of special interest. "The length of time to be allowed for the experiment should not be too brief. 10 years are not enough, 20 years may be reasonably extended; 30 years are not necessarily unreasonable". With the experience of the development of industries and the length of time necessary for a fully satisfactory development, he revised his earlier views on the subject and further observed that the "tenacity of old habits and the difficulties of new enterprises

justifies the contention that a generation more or less may elapse before it is clear whether success has been really attained''. In view of the considerations stated above, my Committee recommend that protection in the first instance should be granted at least for a period of 7 years and further extension must be subject to a review by the Tariff Board. Having regard to the special factors and circumstances pertaining to industries, largely of the nature of basic or key industries, a longer period may also be granted.

Question 50.—My Committee are of the view that the existing system of revenue tariff classification needs a thorough revision, They would, however, leave it to sectional interests to represent specific defects, affecting different industries. In general they would point out that with the progress of industrialisation many new items which were not previously regarded as materials for industrial use are now recognised and accepted as essential for manufacturing processes. All these items have to be separately shown for purposes of tariff classification and there are instances where grouping them under one single item places an undue burden on the industries using them. For example, the Materials Handling Equipment which may be anything from an ordinary hand-truck to Battery-operated or petrol-driven Fork Lift Trucks are grouped together under item No. 75 of the First Schedule, the rate of duty leviable being 30 per cent. *ad valorem*. There are again items in the existing classification which should be shifted to a different class to ease the burden on industry. This is only to emphasize that there is need for a complete change in the method of classification as well as a revision of the existing one with a view to preparing a comprehensive tariff classification that would not hamper industrial progress. In this connection they would suggest the appoinment of a small expert of technical Committee to go into this question and after securing the necessary particulars regarding the materials or products used by industries in the various processes, prepare a suitable method of classifying them. In their view, with due regard to the burden on the consumer as well as the revenue to the exchequer, it should be possible to revise the existing tariff classification, in the larger interests of assisting the growth and development of industries.

Question 51.—My Committee observe that the formulation of the objectives of our long-term fiscal policy in precise terms to cover all the principles enunciated above is a task of great difficulty and complexity. However, they give below in broad outlines, with due regard to the other factors mentioned in the question, what should be the main objectives of our long-term fiscal policy.

Firstly, in the context and terms of the industrial policy of Government as declared in April 1948 the fundamental objective of the long-term fiscal policy should be not merely to serve as an instrument of achieving the aims of the above industrial policy but should be broad based and comprehensive to form an integral part of our larger economic policy. The larger economic policy of the country has for its ultimate objective the increase of national wealth by the maximum exploitation of the country's resources in industry, agriculture and man-power and the maintenance of a high and stable level of employment. To reach this goal Government's policy is to take positive steps to encourage and promote the rapid industrialisation of the country to the fullest extent possible, and in order to facilitate the same the industrial policy lays down the increasing role which the State will play and the field left for private enterprise in attaining this object of rapid industrialisation. Having regard to the demarcation made in respect of the spheres of industry in the control and management of State and that under private control and management, the aim of the long-term fiscal policy should be to facilitate the rapid industrialisation of the country by positive measures as well as indirect measures to prevent any external or other factors to impede the continuous progress of industrialisation. The long-term fiscal policy should, in short, through appropriate tariff measures and other

methods of direct assistance, prevent unfair competition, promote the full utilisation of the country's resources and safeguard and protect the growth of industries.

Secondly having regard to the future structure of our foreign trade, the long-term fiscal policy should aim at expanding our exports and imports along the altered course of trade noticed during the war period and also to diversify trade along new channels and to new markets. The traditional pattern of trade has undergone a change with the growing need for the import of capital goods and machinery, for replacement purposes in existing works as well as for meeting the requirements of new industries. Further, under our industrial policy, export of raw materials will have to decline in order to meet internal demands and new markets will have to be found for exporting our fully manufactured or processed products. In this connection, the continuous adverse balance of trade noticed in the transition period and the prospect of its continuance in the near future will have to be taken due note of and our fiscal policy should aim at the maintenance and gradual improvement of the existing pattern of trade in respect of composition and direction and an expansion in the quantum of trade with a view to closing the gap in the balance of payments and creating a permanent favourable balance of trade position.

As to the objectives of the fiscal policy in regard to the anticipations on the course of international trade (underlying the Havana Charter on Trade and Employment) my Committee have stated their full reactions to the various questions in their replies to Part II of the Questionnaire. It may, however, be stated here that the Charter imposes several limitations and inhibitions involving international commitments regarding tariffs, trading restrictions, quotas, exchange control, preferences, subsidies, international aspects of domestic employment policies and economic development and international investments. While it is true that under-developed countries are released from some of the limitations under certain conditions which are also restrictive it is difficult to resist the view that the obligations imposed under the Charter are likely to stand in the way of the developmental programmes of under-developed countries like India and the formulation of a full-fledged fiscal policy, including the adoption of non-fiscal measures, calculated to bring about a rapid industrialisation of the country.

Question 52.—The Committee are emphatically of the view that at no stage either in the process of implementing their industrial policy or in the facilitating the objectives of our fiscal policy is it necessary for Government or quasi-Government institutions to participate in foreign trade, neither in the short period nor in the long run. They consider that the two issues of State participation in industry and State participation in trade are entirely different and the latter need not at all arise out of a policy of State control and management or protection awarded to an industry or industries. They are aware that arguments are often advanced to infer an implicit necessity for the State to encroach upon the normal sphere of trading activities from the bilateral commitments entered into between India and certain foreign countries as well as the development and growth of industries under our industrial policy. Apart from the fundamental defects in a sytem of State trading it runs counter to the very basic principles of freedom of trade inherent in the national economy of a democratic country. The necessary incentive to that degree of initiative and efficiency upon which progress is built up in business undertakings will be lacking in any organisation for trading, set up by the State. Even from the point of view of practical results, with the lack of necessary knowledge and traditional experience, it is doubtful whether the State organisation can facilitate the main objective of the fiscal policy *viz.*, the growth and development of inudstries. The result of the Government's participation in the trade of certain essential articles has already involved the country in heavy loss. My Committee, therefore, see no need or justification

for the State entering the sphere of trade and are opposed to State trading in any shape or form.

Question 53.—As the Committee are completely opposed to State participation in trading activities in any form, the answer to this question does not arise.

Section E.

Non-Fiscal measures for the promotion of trade and industry.

Questions 54 & 55.—My Committee have already examined at length in their reply to Q. 17 some of the important supplementary measures recommended by the Fiscal Commission of 1921-22, such as (i) need for scientific and technical training and (ii) railway rates policy with a view to promoting and developing industries. The non-fiscal measures which Government should adopt for implementation and furtherance of a comprehensive policy of industrial development may be briefly stated as under:—supply of essential industrial raw materials plant and machinery, cheap fuel and power, cheap, adequate and quick transport for the movement of raw, semi-processed and finished products, technical personnel of different grades, technical information about industrial methods and processes, and industrial finance and such other concessions and facilities as may help the rapid industrial development of the country.

While the fiscal and tariff measures play an important part in the protection and development of industries, it is equally necessary that Government must accept primary responsibility for supplying the necessary facilities for bringing about rapid industrial development by the maximum exploitation of the country's resources and thereby increasing the national wealth of the country. It is a matter of satisfaction that the Government accepted their obligations in this regard as early as 1945 and described the non-fiscal measures enumerated above as the prerequisites of industrial progress in their Statement of Industrial Policy. Among the measures considered important for bringing about a rapid industrial development of the country may be mentioned: development of transport facilities, development of power including power-schemes for the development of resources on a regional basis, survey of mineral resources, scientific and industrial research and promotion of technical education through high-grade technological institutes. In addition to these, it was also mentioned that Government would come forth to assist development of an industry by subscribing a share of the capital and in special cases will also encourage industrial enterprises by guaranteeing a minimum dividend on capital or to meet revenue losses for a fixed number of years. It was also accepted that subject to reasonable safeguards as to quality and price, Government would continue to encourage Indian industries by buying its products in preference to others.

My Committee would like to make the following suggestions as to the manner in which Government can facilitate the promotion and development of industries:

(a) In case of essential industrial raw materials which are not produced in India in any sufficient quantity or are not at all available in the country, Government should adopt a policy of free imports without any restrictions, excepting such cases where India is granted a quota under an international commodity agreement as in the cases of tin, rubber and scarce metals, etc. In the reports of the various Industrial Panels submitted to Government, it is almost unanimously suggested that Government must render all possible assistance in facilitating the supply of essential raw materials to the industries concerned including the imports of such raw materials being allowed duty-free. If necessary, the drawback rebate system must be accepted for the purpose. In this connection, reference may be made to the report of the Tariff Board on the non-ferrous metals industry, which recommends among other measures

the removal of existing restrictions on the import of such non-ferrous metals and ores in respect of which the country was dependent on imports from abroad. While Government have already implemented some of the suggestions by removing the restrictions on the import of essential raw materials it would be necessary to formulate a definite policy in the light of the requirements of industries in respect of essential raw materials which are not readily available in the country.

(b) Import of essential plant and machinery is one of the principal requirements of the country during the post-war period with a view to implementing the plans of industrialisation. Industries have experienced considerable difficulties in securing requisite plant and machinery for their requirements, and in some cases there has been a considerable delay in the execution of the orders. While it is true that a high priority has been assigned to the import of capital goods including plant, machinery, equipment, components and various kinds of intermediate products required for the rehabilitation and expansion of existing industries and the setting-up of new ones, Government must assist in the procurement of capital goods required by industries by setting up suitable organisations in countries like the U. K. and the U. S. A. for the purpose. Besides, as most of these essential plant and machinery will have to be purchased from abroad at the present inflated prices Government should try to help the industries in reducing their initial capital expenditure to the minimum by refunding duty on all machinery imported either for the expansion or reorganisation of existing units or for establishing new industries.

(c) Please refer to reply to Q. 6(f).

(d) My Committee have already indicated in their reply to Question 17(ii) as to how a scheme of rationalised freight structure can substantially assist in the development of industries; by offering appropriate concessions in railway freights Government can considerably assist industries in the transport of raw materials and finished products, which constitute in some cases an important factor in the cost of production. As was pointed out by the Aluminium industry in presenting their case for protection before the Tariff Board, railway freight constitutes an appreciable factor in the total cost of production of an industry. It was pointed out that railway freight on raw materials and semi-manufactured goods in the production of aluminium in India was considerably higher, as compared to the same in Canada, and that this acted as a serious handicap on the Indian producer in reducing the cost of production. There may be other industries in a similar plight, and my Committee suggest that the cases of such industries should be carefully reviewed and suitable assistance must be given in the form of concession in freight rates. Besides it is a matter of common knowledge that transport constitutes the chief bottleneck in the quick movement of raw materials and finished products. It is necessary to take steps to relieve the situation by effecting an improvement in the supply position of wagons so as to offer freer transport facilities to industries.

(*e*) Please refer to reply to Question 17(i).

(*f*) Almost all the Industrial Panels, which submitted their Reports on various industries, have emphasized the paucity of technical personnel of different grades for the development of industries and the need for establishing research and technological institutions subsidised by Government. My Committee understand that plans for scientific and industrial research have already been formulated by the Council of Scientific and Industrial Research and schemes have been sanctioned for a National Chemical Laboratory, a National Physical Laboratory, a National Metallurgical Laboratory, a Central

Fuel Research Station and a Central Glass & Ceramic Research Institute and other research schemes are also under consideration. In this connection, they would however like to suggest that with a view to facilitating the maximum advantage of the researches and of disseminating the results of such investigations in the form of technical information about industrial methods and new process to the industries concerned, there should be a full co-ordination and co-operation between the research bodies and the industries. At present, cases have been noticed where for want of co-ordination between research on the one hand and commercial production on the other, industries could not utilise the results of new researches. My Committee suggest that associations representing various industries must act as a link between industries and the Council of Scientific & Industrial Research and must try to distribute the published technical information about industrial methods and processes to their constituents.

(*g*) In respect of the supply of industrial finance, Government have already established the Industrial Finance Corporation, which has completed its first year of work. In terms of Section 23 of the Industrial Finance Corporation Act, the Corporation is authorised to carry on and transact the following kinds of business, *viz.*:

(i) guaranteeing loans raised by industrial concerns repayable within a period not exceeding 25 years and floated in the public market;

(ii) underwriting the issue of stocks, shares bonds or debentures by industrial concerns; and

(iii) granting loans or advances to or subscribing to the debentures of industrial concerns repayable within a period not exceeding 25 years.

The above Section provides that the Corporation is authorised to grant advances or guarantee advances only against the security of tangible assets. However, the kinds of business referred to include the provision of block as well as working capital for running industries. In fact, it provides for the scrutiny of the financial aspects of an industrial project under the following heads: (i) land, (ii) building, (iii) machinery, and (iv) working capital, to make sure that with the aid given by the Corporation the concern will be comfortable in the matter of finance. Under this scheme, the formal and concrete proposals for accommodation received were 95, the amount of assistance required aggregating to Rs. 10 crores, out of which 21 applications amounting to Rs. 3½ crores were sanctioned and 41 applications are still under review. While my Committee are of the view that under the existing conditions the facilities offered by the Corporation may be sufficient to meet the needs of industries concerned, they would like to emphasize the need for enlarging the scope of industrial finance so as to meet the increasing demands of industries in respect of finance. For example the limitation of the extent of aid which the Corporation can give up to Rs. 50 lakhs to one concern prevents it from financing adequately industries such as the Indian Steel Industry and Shipping. It may be added that the rate of interest for such loans should be reasonably adjusted so as not to constitute a heavy burden on the industries. They would further add that the proposed Provincial Industrial Credit Corporation, with the object of financing small-scale, medium and cottage industries should be established, and there should be co-operation between the Industrial Finance Corporation of India and the provincial institutions, in order that uniform policies may be pursued in regard to financing of industries.

Questions 56 & 57.—In order to establish the necessary co-operation between industry and trade and Government and to provide for the orderly supply of the facilities of the non-fiscal nature enumerated above my Committee suggest

the constitution of an Active Committee consisting of representatives of the Departments of Industries and Commerce and accredited non-official representatives of trade, commerce and industry. The trade and industry can represent to this Committee their particular needs and requirements and the assistance which they may seek from time to time in respect of them. Separate bodies have already been suggested for the supply of industrial finance and the supply of technical information and industrial methods and processes, but the chief function of the Active Committee will be one of co-ordination between the activities of these various bodies and to see that the facilities recommended either by the Tariff Board or asked for by the industries are expedited, so as to meet the urgent needs and requirements of the industries. It will also act as a Central Organisation maintaining a close liaison between the industries on the one hand and Government on the other.

SECTION F

Fiscal Policy in Relation to Commonwealth Preferences

Questions 58 & 59.—In formulating their views on the subject of Imperial Preference, my Committee feel it necessary to have a clear analysis of the circumstances or conditions under which the application of the principle of Imperial Preference as a form of tariff system was first conceived with reference to India's trade relationships with other nations *vis-a-vis* the U.K. In principle, Imperial Preference is only one of the many forms of tariff system designed as a means of commercial bargaining. In general, preferential tariffs are the results of political, geographical or other conditions which may make it necessary to enter into contractual obligations in respect of trade relations. In particular, under the principle of Imperial Preference the British Dominions (now the Commonwealth countries) reserve the right of granting to the U.K. or other members of the Commonwealth tariff rates which may not be claimed by other contracting parties in virtue of the most-favoured-nation clause. In fact, Imperial Preference forms an additional form of tariff to the already existing tariff systems within the respective member-countries of the Commonwealth. The evolution of Imperial Preference is closely related to the economic aims and motives of the constituent members of the Commonwealth, particularly of the strong members who were able to obtain concessions to the best advantage of expanding their own trade. Imperial Preference thus was conceived as a suitable additional form of tariff in respect of groups of countries united by certain economic motives or aims and were also to a certain degree mutually dependent in the process of their economic development. Having given as precise an explanation as possible of the principle of Imperial Preference, it would now help to analyse the application of this principle to this country in relation to Great Britain and other members of the Commonwealth. The question of trade preferences within the Empire was mooted as early as 1903 and since 1919 India along with the other Dominions had enjoyed a certain amount of preference with regard to certain commodities, for instance, coffee, fruit, silk and tea upto 1929. The attitude of the Government of India towards such schemes prior to 1930 had been that before they considered any of the questions in a concrete form, they wanted to be quite sure as to the kind of positvie benefit that might result to India from the adoption of any such scheme and inasmuch as before 1931, to be more accurate before 1932, India automatically and unconditionally enjoyed any preferences that were granted to the Dominions by the U.K., the Government of India did not feel called upon to consider the question from close quarters and their view was that unless concrete proposals were put before them for their examination it was not for them to initiate discussions on these matters. The question was therefore taken up in a concrete form in the Imperial Conference of 1930, and in that Conference only the attitude of the Government of India was made clear that though India is

ready to consider favourably all schemes designed to encourage the development of trade with all other countries of the British Commonwealth, she was not prepared to commit to any general scheme of tariff preference before the Empire and reserved complete freedom to deal with each case as it arose. With the abandonment of the Free Trade Policy by Britain by the stress of circumstances in 1931 and the passing of the Import Duties Act (which subjected almost every commodity to a tariff) India had to decide in favour of entering into an agreement which would mutually benefit her as well as the U.K. and therefore Imperial Preference was introduced into the Tariff Policy of India on a substantial scale for the first time under the Ottawa Trade Agreement in 1932. It is not possible to review the efforts of the working of the Imperial Preference on Indian trade and industry, as there are more than two opinions on the subject. However, Imperial Preference in the context in which it was first applied to our tariff system was not popular and has been severely criticised for the one-sided benefits which were secured by the U.K. to the detriment of the industrial development of India as well as her expansion in trade. In this connection it may be borne in mind that the object of Imperial Preference was to try and preserve, and if possible to stimulate, Empire trade at a time when all the forces that were working upon International trade were determined to result in a shrinkage in trade. So, in the midst of this general cataclysm the Ottawa Agreement was an arrangement intended to preserve, and if possible to increase, the trade between the constituent countries of the Empire by the application of the principle of Imperial Preference which was confined to certain countries and to certain commodities only. As in the actual working of the Ottawa Agreement, it was found that the U.K. as the stronger party has benefited more from the application of this principle it has always been looked upon with disfavour by both economists and businessmen in this country and therefore a review of its working was undertaken in 1936 and shortly afterwards the Legislature voted for its termination. The question now to be considered will be whether because of the fact that the system of Preference in its application to Indian tariff has adversely affected our trade and industry, should it be abandoned altogether or whether the principle as such should be accepted and provision should be made for the application of the same wherever it is found to yield beneficial results in the process of expansion of our trade and development of industry. This is the vital point which is to be considered now, when the country has attained freedom and yet has voluntarily opted to remain as a member of the Commonwealth. Now that the political domination of Britain over India has ceased and thereby the economic exploitation of the country, the principle of Preference should be judged on its merits and the uses to which it can be advantageously put in the formative period of our industries. My Committee would consider it desirable to retain the freedom of having a preferential tariff wherever it is found necessary and if thereby the country's trade would benefit.

Under the General Agreement on Tariffs and Trade, the principle of Preference is not completely abandoned. Paragraph 2 of Article 1 on most-favoured-nation treatment in Part I of the Agreement definitely lays down that the "provisions" of paragraph 1 of this article shall not require the elimination of any preferences in respect of import duties or charges which did not exceed the levels provided for in paragraph 3 of this article and which fall within the following descriptions:

> "A. Preferences in force exclusively between two or more of the territories listed in Annex. A subject to the condition set forth therein."

India is one of the countries mentioned in this annex. The interpretations made on Chapter IV (Commercial Policy—Section A) on the elimination of tariff preferences also clearly point to the fact that Imperial Preference has

not been surrendered as a principle. Mr. Herbert Morrison in a speech declared as late as June 1946 that "into the process of bargaining would come Imperial Preference not as a system but individually just as individual tariffs. There could be no question of Imperial Preference being given up as it were in the void. They would be examined as part of the wider commercial picture and in the bargaining which would take place any reductions suggested would have to be weighed against the advantages to the Commonwealth and Empire as well as to the world of the countervailing reductions in trade barriers which were offered by other countries". It was also explained by the late Lord Showden, the then Chancellor of Exchequer, that if one takes the most favourable interpretation of this commitment Imperial Preference should not be surrendered as a principle but only preference by preference in return for a *quid pro quo* and then only with the consent of the Dominion or Colony which benefits from the preference. My Committee therefore suggest that preferences given in respect of any commodities should be judged separately on individual merits of the case and the same should be negotiated on a reciprocal and mutually advantageous basis.

Questions 60 *to* 63.—My Committee are of the view that an examination of the effects of the preferences granted and received by India on (*a*) expansion of trade, (*b*) customs revenues, and (*c*) price levels of preferred commodities is not feasible in view of the paucity of necessary statistical data and the fact that the agreements have been entered into only so recently that no definite indication can be pointed out in any of the above directions. Secondly, during and since the war period, the composition and direction of our external trade have been determined by the exigencies and scarce conditions of a war economy and it would not be correct to draw any inference regarding the effects of preferences in a period characterised by abnormal conditions. For example, there has been a general contraction in our external trade and even in items which were our traditional major exports as raw cotton, tobacco, hides and skins, etc. It is only when normal conditions are established in the internal economy of the countries and the flow of trade is determined by peace-time economic factors that it would be profitable to correctly evaluate the effects of preferences to know the advantages or disadvantages thereof. Besides in the case of India the expansion of trade is conditioned by the pace at which the industrialisation programme is put through and it would take some time before they can judge actually the effects of the preferences and at present these can only form probable inferences.

Question 64.—My Committee do not think that preferences are likely to confer any bargaining strength on India *vis-a-vis* the United Kingdom and Commonwealth countries. They can confer only certain mutual economic advantages dictated by the relative importance of the commodities or articles on which they would like to exchange preferences. In respect of non-Commonwealth countries the existence of preferences with U. K. may possibly reduce our bargaining strength if there are commodities or articles with them which India is badly in need of or would like to import in large quantities.

Question 65.—The desirability of continuing the existing preferences between India and U. K., India and the other Dominions and India and other British territories will largely depend on the advantages or disadvantages derived from the same which as observed above can be determined only over a period. Inasmuch as preferences in general with U. K. or Commonwealth countries are likely to reduce our bargaining strength with non-Commonwealth countries in respect of items that may be needed from them, they should be continued only to the extent that they do not seriously affect our trade with other countries outside the Commonwealth. They should be subject to periodical revision and modification in the interests of our trade expansion.

SECTION G

Treatment and obligations of protected and assisted Industries.

Question 66.—(a) It is generally recognized that the industries receiving protection or assistance from Government owe certain reciprocal obligations to the community as a whole, inasmuch as the latter undertakes willingly to accept the burdens consequent upon the protection granted to industries. In terms of the long-term objective of the Fiscal Policy, the grant of protection must under normal circumstances bring about the maximum production of wealth and result in increasing national income, thereby enhancing the taxable capacity of the people and raising the general standard of living. It would, therefore, be legitimate to expect that industries receiving protection or assistance from Government must seek to achieve substantial progress by reducing costs resulting from the application of research in the technique of production, expansion in the size of operations and such other factors, which contribute to economies in the process of manufacture. Besides, the obligations stated above, my Committee believe that the protected industries have also a general obligation to other ancillary industries and services like insurance, banking and shipping.

(b) (i) My Committee are of the view that the regulation of price policy and price structure of an industry is an extremely complex mechanism and under normal circumstances no attempt should be made to interfere with the price structure of a given industry, in view of the fact that the same is determined by factors affecting general price level as also price-levels of other industries which are related to the protected industry. However, an exception may be made in cases where the protection given is absolute by way of quantitative restrictions, and there may be some justification for fixing the ceiling price, so as to prevent monopolistic profiteering as in the case of ferro-silicon industry.

(ii) My Committee fully recognize that with the progressive development of industries, there should be a gradual improvement in the living conditions of labour and in their welfare. In this connection, there already exist the Indian Factories Act of 1934 safeguarding the interests of labour, supplemented by recent Central and Provincial legislative enactments in the form of the Industrial Relations Act, Minimum Wages Act, Employees' State Insurance Act, etc. Besides, it is also contemplated to enact legislation for Fair Wages. Inasmuch as all these legislative measures will apply to the whole field of industries, my Committee are of the view that no special legislation is necessary for safeguarding interests of labour in protected industries.

(iii) & (iv) Reference has already been made to the obligations of Government in regard to these under Questions 54 and 55 dealing with the non-fiscal measures for the protection of trade and industry. The obligations which the protected industries should accept may be left to be determined by the appropriate machinery of the Tariff Board, having due regard to the progress made by the industry and its capacity to utilise such technological improvement and research in the technique of production.

(v) My Committee accept that protected industries should undertake the training of apprentices and Government scholars and stipendiaries, to the extent to which there is scope and capacity for the same.

(vi) The question can be suitably dealt with if and when such contingencies arise.

Question 67.—It would be necessary to discourage the formation of monopolistic combines which are likely to pursue policies resulting in the adoption of restrictive practices in regard to production distribution or prices, methods which are likely to prove harmful to the interests of the community as a whole

However, they do not rule out the possibilities of formation of such associations like the Associated Cement Companies, which are not intended to be monopolistic in character, but have the primary object of regulating sales and distribution in a cheap and economic manner. Besides, a combination of this nature will be in a position to minimise internal competition as well as to enable the domestic producers to organise themselves in a more efficient manner against foreign competition.

Question 68.—While my Committee accept that the financial structure of the industries under protection must be based on sound lines and since the same is likely to be considered by the Tariff Board while examining the cases of industries seeking protection, they do not think it necessary to lay down specific conditions re: financial structure of the industries receiving protection.

Question 69.—My Committee understand that the Indian Standards Institution has started functioning with the specific object and purpose of, among other things, promoting standardisation, quality, control and simplification in industry and commerce. As such, they do not think that any special arrangement for the control of quality of the products of protected industries is necessary.

Question 70.—In view of what has been stated above, my Committee are of the view that the obligations should not be embodied in relative statutes dealing with protected or assisted industries. They prefer the alternate suggestion that the same should be left to be prescribed by the tariff-making machinery on an *ad hoc* basis in each individual case of industry seeking protection or assistance.

Question 71.—(a) & (b) My Committee do not consider that any special administrative machinery is necessary for implementing the obligations of protected and assisted industries. Under the appropriate Section, it has already been recommended that one of the functions of the Tariff Board should be to watch the progress made by industries which have been granted protection and review periodically the results of such protection on each industry and make suitable recommendations as to the measure of protection given to the industry. In view of this, they prefer that it would be desirable to entrust this function to the special wing of the tariff-making machinery.

Section H

Organisation, Methods and Procedure

Questions 72—77.—My Committee are of the view that the existing administrative organisation will not be adequate to deal with the problems of implementation that may arise out of Government's acceptance of a comprehensive policy as regards (i) fiscal measures, and (ii) non-fiscal measures. The fiscal, commercial and industrial aspects of every proposal will not only require the most careful scrutiny and examination, but may also necessitate technical inquiries in a number of cases. This aspect can only be entrusted to an independent authoritative body like a statutory Tariff Board, which alone can take a broad and comprehensive view of the economic development of the country as a whole and recommend for the implementation of such fiscal and non-fiscal measures as are likely to achieve the objective of balanced industrial development. This naturally implies that the scope and functions of the Tariff Board will have to be considerably enlarged and suitable organisational changes will have to be effected for the purpose.

My Committee feel that the supreme need of the hour is not the appointment of Committees or Commissions but the implementation of the programme of industrialisation and execution of the plans already formulated under the

same. As to the suggestion that a comprehensive organisation of the nature of a Trade and Industrial Planning Commission sub-divided into suitable branches to deal with the planning and execution of various measures relating to tariffs, other fiscal measures and non-fiscal measures, be set up for the purpose, my Committee are of the view that while the function of planning may be entrusted to the Trade and Industrial Planning Commission, if and when such a body is deemed necessary, the function of implementing the fiscal policy should be entrusted to a specialised organisation like the statutory Tariff Board. The programme of industrialisation as envisaged under the Industrial Policy of Government, *viz.* the development of defence industries, basic and key industries, consumer goods industries and cottage and small-scale industries, will obviously necessitate the formation of a Planning Commission of the type referred to above determining the pace of planned development in the light of the general principles formulated for the purpose and the overall requirements of the country from time to time. It is presumed that the Planning Commission will also recommend to the Tariff Board to investigate the possibilities of developing such new industries, which deserve to be developed in the interests of the national economy. While, therefore, some measure of collaboration and co-operation should naturally exist between the activities of these two bodies, it will be more appropriate to constitute a separate tariff machinery for the task of implementing the Fiscal Policy. It will be at the same time necessary to enlarge the existing machinery of the Tariff Board so as to cope with the expanded scope and activities of the new Board. My Committee suggest that a technical organisation comprising of different sections pertaining to technical operations, specialised investigations in respect of the conditions of industries, trade and commerce, various aspects of tariffs and maintenance of relevant statistics, and costs accounts, should be attached to the Tariff Board, to assist it at every stage of its work. Such an organisation will greatly facilitate the Tariff Board in conducting numerous investigations in connection with protective measures already adopted, examining the potentialities of new industries and collecting data on matters relating to tariffs and trade, production and prices, etc.

Question No. 78.—(i) The Fiscal Commission of 1921-22, while suggesting the institution of a permanent Tariff Board, observed that "the working of the scheme of protection depends on the existence of a thoroughly competent and impartial Tariff Board. The Board must be one which will command the confidence of the country and must be above suspicion of any subservience to particular interests". "It is evident", they further observed, "that the Board must be a permanent body. Consistent decisions and continuity of policy are of primary importance, and these cannot be secured except from a permanent Board". However, it is not clear whether the permanent Tariff Board recommended by the Commission was to be of a statutory character. In the view of my Committee, the Tariff Board should be both permanent and statutory, with its powers and functions clearly defined. A statutory position for the Tariff Board will not only confer on it high standing, but will also attract competent men of ability and integrity to serve on the Board. In addition, a permanent statutory Board will ensure consistency and continuity of policy and make for efficient and speedy despatch of work, as compared to the *ad hoc* boards, which were appointed from time to time for investigating the claims of industries for protection.

(ii) As to the composition and qualifications of the members of the Board, while my Committee endorse the general view that the members should be men of ability, of integrity and of impartiality, other desirable qualifications being a knowledge of economics and a practical acquaintance with business affairs, they would like to recommend that the Board should consist of a Chairman and a minimum of 5 members. Ordinarily, the tenure of office

should be for a period of 5 years, the members being removable either for incapacity, misbehaviour or an act of moral turpitude. However, my Committee do not agree with the view of the Fiscal Commission of 1921-22 that no definite interests, such as manufacturers or traders, should be represented on the Board. In fact, they consider that there is a great deal of force in the recommendation made by the Minority in their minute of dissent that the Board must have 2 representatives of trade, commerce and industry, as assessors, to be duly elected in the present context by the Federation of Indian Chambers of Commerce and Industry. While Government officers may not be excluded from holding office on the Board it should be seen that two-thirds of the members should be independent officials.

Question No. 79.—My Committee have already stated their views on the general powers and functions with the necessary freedom and initiative, which the Tariff Board must possess, in order to be able to play a constructive role in the implementation of the fiscal policy and to accelerate the pace of industrial progress in the country. The Tariff Board, they visualise, should be one with sufficiently wide powers, so as to be able to undertake investigations on its own initiative, under certain circumstances and even review the progress of protected industries from time to time. While, therefore, the Board should be mainly an advisory body in character and the powers of final decision should naturally vest in Government, the range of powers and functions entrusted to it should be wide and comprehensive.

It may be observed that the recommendations made by the Indian Fiscal Commission of 1921-22 as to the appropriate functions of the Tariff Board, did not merely confine themselves to the investigations of the claims for tariff protection as determined by the triple formula, but included a large number of other functions, such as reporting the effects of excise duties on Indian industries, studying the effects of tariff policy on the cost of living, besides enquiries into allegations of dumping and complaints of discriminatory treatment in foreign countries and recommending assistance to key industries essential for national defence. But, as observed before, since the Tariff Boards appointed by the Government were of an *ad hoc* nature, set up on a temporary basis, functions of a limited character were assigned to them from time to time in a specific manner.

My Committee have set forth below the nature of the functions, which a Tariff Board is expected to undertake and hope that the Fiscal Commission, while laying down the functions of the Board, will give due consideration to the same so as to incorporate as many as possible:—

(1) To investigate the claims to protection of industries and if satisfied that protection is necessary in the national interest, to recommend (a) the rates of protective duty, (b) subsidies and bounties, (c) imposition of quantitative restrictions by regulation of imports or exports, either singly or in combination, and the duration of these measures, as may best serve the interests of domestic industries;

(2) To recommend to Government necessary measures for the protection of indigenous industries from dumping, whatever the form of dumping, immediately bringing into operation legislation devised for the purpose;

(3) To recommend measures necessary for encouraging the establishment or development of new industries, particularly of national importance;

(4) To specifically recommend the development of such ancillary and subsidiary lines of production, necessary for an integral development of an industry as a whole;

(5) To investigate into the effects of protective duties or other measures of assistance, applied to industries and the necessity or otherwise of modifying the protection extended or assistance granted;

(6) To suggest ways and means of facilitating the supply of (a) raw materials, and (b) technical knowledge and personnel;

(7) To suggest measures for the attraction of capital on fair and equitable terms to industry;

(8) To suggest ways and means by which industry can attract sufficient supply of labour on terms satisfactory and equitable to the workers having due regard to the incidence of such terms in the costs of the industry;

(9) To inquire into the effects of the operation of foreign firms or subsidiaries of non-Indian firms established in India on Indian trade and industry and to recommend measures, if necessary, to prevent unfair practices, if found to be resorted to by them;

(10) To watch the progress made by industries which have been granted protection and to review periodically the result of such protection, on each industry and to make suitable recommendations as to the measure of protection given to the industry;

(11) To undertake studies on the effects of *ad valorem* and specific duties and tariff valuations on various articles and the effects on tariff concessions granted to other countries in pursuance of the General Trade and Tariff Agreements;

(12) To report to Government on combinations, trusts, monopolies, and other restraints on trade, which may tend to affect the industries enjoying protection, by restricting production or maintaining or raising prices and to suggest ways and means of preventing such practices;

(13) To review the operation of rail and road, water and air freights on the development of industries and to recommend necessary measures or alterations in the freight policy in order to facilitate the promotion and development of industries;

(14) To enquire into the cost of production of a commodity produced in the country and to determine the relation between the factory, wholesale and retail prices of the same;

(15) To investigate the relations between the rates of duty on raw materials, semi-finished and finished products and to recommend on the necessity or otherwise of adjustments in these rates;

(16) To investigate on the working of the fiscal policy in general on Indian industries and in particular the effects of duties of Central excise on domestic industry and anomalies in the Customs and Central excise tariffs;

(17) To review the operation of export or import duties in the interest of revenues and the effect of the same on the industries which have been granted protection;

(18) To consider the preferential and other trade agreements and their effects on Indian trade and industry;

(19) To investigate questions in connection with the treatment of Indian

products by foreign countries and to recommend the advisability of taking any retaliatory action in special cases;

(20) To study the effects of commercial and industrial policy on national income;

(21) To study the tariff relations between India and other countries;

(22) To summon witnesses and call for documents and to take evidence on oath; and

(23) To recommend programmes of research and technical development to be undertaken and financed by Government for assisting particular industries.

The functions enumerated above have been formulated, after having taken into due consideration, the functions prescribed by the Fiscal Commission of 1921-22 and the functions assigned to the interim as well as the reconstituted Tariff Boards of 1945 and 1947. However, the list as suggested by my Committee with necessary additions is only illustrative and not exhaustive.

Question 80.—While the functions of the present Indian Tariff Board, as laid down from time to time since November 1945, may be deemed to be adequate for the limited purposes for which they are intended, they do not cover the whole range of functions which a permanent statutory Tariff Board must perform for the implementation of the country's long-term fiscal policy. It is true that some additional functions have been assigned to the present Tariff Board, but the present machinery is intended to be an interim body, primarily concerned with the question of war-time industries. The necessary additions have been indicated in the functions outlined in reply to Question 79.

Question 81.—In view of the enlarged scope and functions of the present Tariff Board, instituting of a technical organisation to assist the Board will greatly facilitate its work and will be conducive to a more efficient discharge of its duties.

Question 82.—My Committee are of the view that the present procedure must be liberalised and the Tariff Board besides considering the case of applicant industries must have the necessary authority to investigate the cases of such industries, as are essential to the national economy and deserve to be developed and recommend ways and means, including protective measures, deemed necessary for the purpose.

Question 83.—Observations made in Question 82 should also apply to small and unorganised industries.

Question 84.—In the preliminary observations, my Committee have already pointed out the defect in the procedure governing the submission of applications, *viz.* that they should be first referred to the Commerce Department, which would forward the same to the Tariff Board only if it was satisfied that a *prima facie* case for protection had been made out by the applicant industry. It has been already observed that this condition was responsible for a great deal of vexatious delay in determining the claim for protection of an industry. Besides, it proved to be a source of great deal of dissatisfaction, inasmuch as the procedure empowered the Executive to prejudge the case of an industry which could only be examined in an impartial and comprehensive manner by the Tariff Board constituted for the purpose. In view of the above, my Committee are of the view that the Tariff Board should be fully authorised to initiate inquiries or receive applications for protection, without the same being first submitted to Government for its prior approval as to whether a *prima facie* case had been made out by the industry or not.

Question 85.—The procedure suggested above will largely remove the causes for delay and will further make the procedure relating to the grant of protection more expeditious. It may be laid down in the instructions issued to the Tariff Board that the inquiries should be completed as expeditiously as possible and Government must adopt the convention that their decision on the Board's recommendation should be notified to the public within a period of two months of the submission of the Report.

Question 86.—My Committee note that even under the present procedure an industry seeking protection or assistance from Government has to submit its application to the Ministry of Commerce. The same is further placed before an inter-Departmental Committee consisting of representatives of the Ministries of Commerce, Industry and Supply and Finance. The Ministry of Commerce refers the case to the Tariff Board for investigation and report, only when it is satisfied that a *prima facie* case has been made out by the industry in question and that it is a fit case to go before the Tariff Board. This procedure is likely to cause a great deal of delay and in view of the observations already made in the preliminary remarks, it would be most conducive to prompt and speedy work if the applications were allowed to be made directly to the Board. It may be further observed that the present procedure involves duplication of work, inasmuch as the Ministry of Industry and Supply is required to submit a memorandum containing the full case of the industry under investigation, including relevant statistical information to the Board. At the same time, the office of the Tariff Board simultaneously does the work of compiling statistics of imports, exports, production and c.i.f. prices relating to the industry from the various Government sources and publications. It is suggested that the technical organization assisting the Board should be entrusted with the work relating to the compilation of necessary information for any industry whose case comes up for investigation.

Question 87.—The recommendations embodied in the Report of the Tariff Board in respect of any industry or problem having been made after an elaborate and impartial inquiry by a competent body should be normally accepted by the Government. In case the Government have strong reasons for rejecting the recommendations of the Board, the same should be made known to the public.

Question 88.—(a) Yes. The Tariff Board must be placed on a statutory basis. Please refer to reply to Question 78(i).

(b) Yes. The Statute should lay down the composition and functions of the Board. As to the question whether the general principles governing tariff policy, the general procedure to be followed in tariff inquiries and the manner of enforcement of the obligations of protected or assisted industries should be laid down by a statute, my Committee hold that, since post-war fiscal policy may have to be modified to suit the changing conditions, it would be advisable not to embody the same in the Act constituting the Board. This will further minimise the possible risk of rigidity in procedure and make for greater flexibility.

(c) Please refer reply to (b) above.

PART II

QUESTIONNAIRE OF THE COMMISSION DEALING WITH THE HAVANA CHARTER ON WORLD TRADE AND EMPLOYMENT AND GENERAL AGREEMENT ON TARIFFS AND TRADE.

1. My Committee would like to recall that from the time the first session of the Preparatory Committee was held in London on 15th October to 26th November 1946, they have been following with keen interest the developments connected with the proposal for promoting national and international policies to increase international trade and for the framing of a Charter for an International Trade Organisation. They had, even at that early stage, expressed themselves unequivocally that disparity and difference in the level of development of the different countries would automatically impose a handicap on backward countries, if a uniform code of conduct, restricting freedom of unilateral action by any country designed to promote internal development, was insisted upon. They had not made any secret of their fear that the purposes, provisions and requirements of the Draft Charter as originally framed were mainly conceived from the point of view of the industrially advanced countries, which were seeking to stabilise their industrial development at the peak level reached by them during the period of the war. They further pointed out that the proposals entirely ignored the claims of industrially backward and under-developed countries and as such unless they were revised in a manner, which gave due recognition to the legitimate claims of the under-developed countries, it would be suicidal for a country like India on the threshold of a planned programme of industrial development to be drawn into international commitments of such a far-reaching character. It is a matter for some satisfaction that the above point of view was vigorously endorsed and advocated by the representatives of this country at the Drafting Committee of the Conference which met in New York in January 1947, at the Second Session of the Preparatory Committee held at Geneva in April 1947 and subsequently at the Havana Conference. It must also be conceded that as a result of the efforts made by the Government of India and the inherent soundness of the point of view urged by them, the original proposals were considerably modified and the Charter as it has finally emerged has recognised in an enlarged measure the point of view and the objections put forward by India and the representatives of other backward countries. While acknowledging these improvements, the Committee of my Chamber must at the same time point out that even in its present form, the Charter imposes on countries, which are in a state of under-development like India, obligations which in actual working may prove to be too onerous and may militate against the acceptance of a dynamic policy of internal development, which may be found to be necessary in the implementation of a full-fledged programme of national economic development.

2. The Committee of my Chamber would endeavour to indicate the more important limiting factors which, in their opinion, should be deemed to be a handicap against industrially backward countries and as such require to be further modified in favour of such countries. The Havana Charter in its final form does constitute an important landmark in the history of international economic relations, inasmuch as it seeks to prescribe a comprehensive code of behaviour which should govern international trade. It further provides for the formation of an international Trade Organisation as a specialised agency. The organisation has for its primary objective, the promotion and expansion of international trade by fostering increased production and employment and by encouraging the economic development of backward and industrially under-developed countries. With a view to achieving the said objectives, the Charter sets forth a series of international commitments with respect to national economic

policies regarding tariffs, trading restrictions, quotas, exchange control, preferences, state trading, subsidies, cartels, inter-governmental commodity agreements, international aspects of domestic employment policies, economic development and international investments.

3. The basic aim underlying the Charter is the attainment of high standards of living, full employment and conditions of economic and social progress. Towards that end, Member Governments subscribing to the Charter are required, among other things, to foster and assist industrial and general economic development, particularly of under-developed and backward countries and encourage the international flow of capital for productive investment and to facilitate on equal terms access to productive facilities for their economic prosperity and development. Nowhere in the Charter, however, has a definite legal obligation been thrown on Member countries to require the implementation of specific programmes or proposals designed to achieve the above object of assisting the development of backward countries. While the purposes and objectives in regard to this matter are piously set forth in the Clauses of the Charter, even without being subject to the charge of cynicism, one can reasonably pose the question as to whether the proposed international machinery can enforce the fulfilment of the above obligation by requiring Member country A or B to give direct assistance to a backward country and to make available to such a country productive facilities required in the process. In short, my Committee are only giving expression to a fear that the Charter has not provided for the forging of sanctions, which would enable the implementation of its main purposes and objectives. India, as a backward country, will have to increasingly depend on industrially advanced countries for the supply of capital goods and technical personnel. This country's schemes of expansion and economic development will largely depend on international co-operation and assistance. My Committee only are, therefore, naturally raising the issue as to how the Charter is going to provide for the enforcement of the obligations undertaken by Member countries in respect of fostering and assisting industrial and general economic development of backward areas.

4. Coming back to the central issue of the limitations and inhibitions imposed by the Charter standing in the way of the developmental programmes of a backward country like India, my Committee may recapitulate that Member countries will be expected under the terms of the Charter to undertake·

(i) to introduce no new preferences and to increase no old preferences (Article 16);

(ii) to enter into and carry out negotiations directed towards the substantial reduction of tariffs and the elimination of preferences (Article 17);

(iii) not to impose on imported goods internal taxes higher than those imposed on like domestic goods (Article 18);

(iv) not to impose on the distribution or use of imported goods law, regulations or requirements, more than those imposed on the distribution or use of like domestic goods (Article 18); and

(v) not to impose any new requirement that any specific amount or proportion or any product must be supplied through domestic sources.

5. My Committee recognise that, under certain conditions, an under-developed country is released from some of these obligations, when such a country in pursuance of its programme of economic development adopts certain protective measures. They are dealing with difficulties presented by some of these restrictions in their detailed replies to the questions on Commercial policies.

They would, at this stage, however, like particularly to emphasize that the Commercial policy provision designed mainly to secure immunity for foreign capital from discriminatory treatment may present in actual operation a potential handicap in the pursuit of policies designed to assist national development. Under Article 12 of the Charter, members are required, in regulating their policy governing investments, to avoid discrimination as between foreign investment, although favourable treatment to national investments *vis-a-vis* foreign investments does not seem to be ruled out. The provisions in Article 18 requiring Member countries not to impose on the distribution or use of imported goods law, regulations or requirements more than those imposed on the distribution or use of like domestic goods may, perhaps, come in the way of a Member State adopting a policy of direct assistance to indigenous-owned capital. Illustrating the point, my Committee would like the Commission to specifically consider:

(a) Whether the continuance and enforcement of the present policy of a price preference and administrative preference to Swadeshi Stores under the Stores Purchase Rules and Policy of Government would be debarred by the obligations and requirements imposed by the Charter?

(b) Whether enforcement of a condition that the insurance of all State-owned properties shall be confined to Insurance Companies of national ownership and management will be debarred by the acceptance of the commitments under the Charter? and

(c) Whether assistance in the shape of direct bounty for developing Indian-owned and managed shipping would be deemed possible only if assistance in a similar form and to a similar extent is extended to foreign-owned shipping operating in Indian waters.

If the Commission share the fears of my Committee that the freedom of action of Indian Government in the above directions would be restricted by the obligations imposed by the Charter, then my Committee are of the considered view that the Government of India should be advised to specifically ask for releases and exemptions in regard to the above essential rights, as they have a vital bearing on the development of a national economic policy for our future developmental purposes.

6. It is, however, in the provisions governing the use of quantitative restrictions for protective purposes that the Charter has imposed obligations which are certainly very onerous from the point of view of industrially backward countries. Article 20 requires general elimination of quantitative restrictions as a principle. Under Clause (1), no prohibitions or restrictions made effective through quotas, import or export licences or other measures shall be instituted or maintained by a Member in respect of the products of import or export of that member. These requirements provide that in all cases, other than those specifically stated in the Charter or exempted by the International Trade Organisation, Member countries shall abandon the use of licences, quotas and other quantitative restrictions on exports or imports. Again, if and when permitted, quantitative restrictions as may be permitted have to be administered so as to avoid discrimination between other Member countries. (Article 22). Import restrictions designed to protect industries established during the period from 1939 to March 1948 and those necessary to protect industries engaged in the processing of domestic raw materials or of the bye-products of domestic industries have been recognised as permissible. My Committee must concede that this is a distinct improvement on the original proposals. In all other cases, quantitative restrictions will be governed by the principle of prior approval of the I.T.O. This requirement relating to prior approval has been modified in two essential directions; one is that the I.T.O. shall give its approval if it is established that the proposed measure is unlikely to be more restrictive of international

trade than any other practicable and reasonable measure permitted under this Charter, which could be imposed without undue difficulty. The other exception makes it legal to adopt quantitative restrictions in anticipation of the concurrence of the I.T.O. for the purpose of avoiding an increase of importation of the products concerned in such amounts as to make the quantitative restrictions when adopted quite ineffectual, thereby jeopardising the protection which these restrictions were to give to the industry newly to be established. The essence of these provisions is that quantitative restrictions are not to be generally utilised for protection purposes except in the case of war-time industries. My Committee are unable to appreciate the justification for limiting the use of this protective weapon only in respect of war-time industries. The same right should be equally available for nascent industries, developed or established in times to come. This is an important direction in which the Government of India may be advised to secure modifications in the provisions of the Charter.

7. With these observations, which give a general indication of the views of my Committee on the problem as a whole, they would now proceed to give detailed replies to the specific questions in the Questionnaire.

Question No. 89.—The basic aim underlying the Charter is the attainment of high standard of living, full employment and conditions of economic and social progress. To that end, the members are required to promote such national and international policies so as to:

(a) assure a large and steadily growing volume of real income and effective demand; to increase the production, consumption and exchange of goods;

(b) to foster and assist industrial and general economic development, particularly of under-developed and backward countries, and encourage the international flow of capital for productive investment;

(c) to facilitate on equal terms to all countries access to markets, products and productive facilities for their economic prosperity and development;

(d) to promote on a reciprocal and mutually advantageous basis the reduction of tariffs and other barriers to trade and elimination of discriminatory treatment in international agreements; and

(e) to facilitate solution of problems relating to international trade by promotion of mutual understanding, consultation and co-operation.

In regard to the objectives as stated in the American proposals it was felt that this section failed to take sufficient note of the needs and requirements of the under-developed countries like India, and doubts were expressed as to whether the freedom of such backward countries to develop themselves would not be seriously jeopardised by the acceptance of these proposals. It was also pointed out that if the basic objective of promoting world trade and employment was to be attained, the proposals must be recast in a positive manner and must *inter alia* place an obligation on more advanced countries. Judged from this point of view, the Havana Charter marks a distinct improvement on the original U.S. Draft. Among other objectives, it requires member-countries to clearly recognise their obligation in respect of fostering and assisting industrial and general economic development of backward and under-developed areas. It further recognises the right of access for such countries on equal terms to the markets, product and productive facilities, which are essential for their economic development. In view of the fact that India will have to increasingly depend on industrially advanced countries for the supply of capital goods and technical personnel and in spite of our large domestic market and plentiful natural resources we will have to develop the pattern of our export trade on a multilateral

basis, my Committee feel that we are naturally interested in promoting expansion of world trade. In fact, our own schemes of expansion and economic development will have to largely depend upon international co-operation and maintenance of high level of employment and activity in other parts of the world. Viewed from this angle, viz. (1) acceptance of the development of under-developed countries as one of the purposes, and (2) India's need for international co-operation in her schemes of economic planning and development, my Committee accord their approval to the basic purpose and objectives underlying the Havana Charter on Trade and Employment.

Question 90: *Economic Development and Reconstruction.*—My Committee note that this is entirely a new chapter incorporated in the draft Charter at the first session of the Preparatory Committee, with a view to accommodating the point of view specially emphasized by countries like India, Australia, Brazil, etc. Article 8 is of a general nature and emphasizes the importance of economic development and reconstruction in relation to the purpose of the Charter. Under Article 9, members of the I.T.O. agree to take action, within their respective territories, designed to develop industrial and other economic resources and to raise standards of productivity. Article 10(2) is of special interest to under-developed countries, inasmuch as it requires the I.T.O. at the request of any member to study the resources and potentialities of the member's economy and assist in the formulation of its plans for economic development and furnish advice concerning the financing and carrying out of such plans or assist the members in obtaining such advice. The I.T.O. is also authorised to make recommendations and promote agreements to facilitate an equitable distribution of skills, arts, technology, materials and equipment. Members are further required not to impose any unreasonable or unjustifiable action within their territories, so as to prevent other members from obtaining such facilities on equitable terms.

My Committee would like to observe that the functions assigned to the I.T.O in regard to the assistance to be rendered for economic development and reconstruction of backward countries are largely of an advisory character. The obligations under these clauses are not binding in any manner on the member-countries in respect of the needs and requirements of the industrially backward countries. Members have been asked or requested to co-operate only to the extent that is possible for them to do so within the limits of their powers. However, within these limits, it may be conceded the provisions do create opportunities for the I.T.O. to render substantial assistance in the development of backward countries.

Government Assistance to Economic Development and Reconstruction.—Article 13(1) can be considered specially important from the point of view of the industrially backward countries, inasmuch as it clearly recognises that *in appropriate circumstances employment of protective measures for the promotion of economic development is justified.* However, while exercising this right, it is to be seen that such measures do not impose undue burdens on their economies and unwarranted restrictions on international trade.

The Article released, under certain conditions, an under-developed country from some of the obligations, when the member, in pursuance of its programme of economic development, adopts certain protective measures affecting imports, which may be in conflict with the provisions of the Charter.

(*a*) An under-developed country may enter into direct negotiations with the other parties to a trade agreement and obtain release through their consent, subject to such conditions as they may impose.

(*b*) Or, it may ask the I.T.O. to sponsor negotiation with all of those parties to the trade agreement who would be materially affected.

On obtaining a substantial agreement, the I.T.O. may then grant a release, subject to such conditions as may be agreed upon.

The detailed provisions regarding prior approval of the Organisation were very cumbersome and dilatory in the earlier draft. These have been relaxed, and the Charter, Article 13(10), requires that the Organisation shall ordinarily within 15 days after receipt of the application advise the applicant member of the date by which it will be notified whether or not it is released from the relevant obligation. The maximum limit set is not later than 90 days. In case the applicant member is not notified by the date set, the member may, after informing the Organisation, institute the proposed measure.

Further, in regard to measure such as import quotas and mixing regulations on products not covered by trade agreements, it is provided that

(a) release must be granted if the I.T.O. is satisfied that the measure proposed is the one most suitable for the purpose and is "unlikely to be more restrictive of international trade than any other practicable and reasonable measure permitted" under the Charter; and

(b) release must be granted if the I.T.O. finds that the industry to be protected will engage in the processing of an indigenous primary commodity or a bye-product that would otherwise be wasted; that the measure proposed for the industry is necessary; that it will achieve a fuller and more economic use of resources, raise standards of living and that it will not harm international trade.

In both these cases it may be noted that a wide measure of discretion rests with the I.T.O. In addition, in two other cases, grant of release by the I.T.O. will become virtually automatic.

(a) Release for a specified period must be granted, if the industry to be protected was established between 1939 and 1948;

(b) Release must be granted, if the industry processes an indigenous primary commodity and if external sales of that commodity have been sharply curtailed by new or increased restrictions imposed abroad.

In case of import quotas and other prohibited measures affecting products not covered in trade agreements already in effect, they may be continued until the I.T.O. determines whether they must be abandoned or may be retained. (Article 14).

Preferential Agreements.—Article 15 recognises that special circumstances may justify new preferential arangements between two or more countries in the interest of the programme of economic development or reconstruction. It is laid down that the territories of the parties agreeing for establishment of tariff preferences must be contiguous or must be within the same economic region. The clause would facilitate the formation of a *bona fide* Customs union, in the event the same is agreed to by the Members concerned. It may be observed that the principle of prior approval has been substantially qualified and new preferential agreements are now admitted except in certain special cases.

As observed above, this Chapter on Economic Development and Reconstruction was specially incorporated at the instance of industrially backward and under-developed countries. My Committee would like to observe that the articles under the Chapter recognise only in a partial and qualified manner the special needs and requirements of under-developed countries. While the Charter recognises the right to utilise particular measures for the promotion of economic development it has still retained the clause requiring the prior approval of the

I.T.O. for imposing certain protective measures, however simplified the procedure may be. My Committee are of the view that it would have been more appropriate if the right of the industrially backward and under-developed countries to utilise protective measures such as Quantitative Restrictions were fully recognised in the Charter, subject, however, to a subsequent review by the I.T.O.

Question No. 91.—Please refer to reply to Question No. 90.

Question No. 92.—My Committee note that encouragement of international flow of capital for productive investment is now incorporated among the purpose and objective of the I.T.O.; Article 12(1) recognises the right of a member to provide appropriate safeguards against foreign investment being used "as a basis for interference in the internal affairs or national policies of members". It further authorises a member to determine the terms and conditions on which future foreign investments may be allowed. Members may also prescribe and give effect on just terms to requirements as to the ownership of existing and future investments. At the same time the I.T.O. enjoins that members should offer adequate safeguards for existing and future investments and that they should give due regard to the desirability of avoiding discrimination as between foreign investments.

In a recent statement on the Union Government's policy in regard to the position of foreign capital in India made by the Prime Minister the terms and conditions laid down are not only in full accord with the requirements laid down in the Charter but go a little beyond. If India is to fully implement her plans and proposals of industrial development, she will have to welcome foreign capital to play its role in India's economy in a constructive and co-operative manner. Foreign capital, it is expected is not only necessary for the rapid development of the country, but is also welcome inasmuch as in several cases it will bring with it the requisite scientific, technical and industrial knowledge necessary for the development of industry.

While welcoming foreign investments in India on terms and conditions mutually advantageous, Government have emphasized that as a rule the major interests in ownership and effective control of an undertaking should be in Indian hands. In general terms, my Committee are of the view that the provisions in the Charter with the necessary safeguards fairly meet with the requirements of India in respect of foreign investments. However, they presume that India will not be precluded from extending or confining direct governmental assistance in the form of protective measures to industries the ownership of which is preponderatingly in national hands.

Question No. 93: *Commercial Policy.*—In the opinion of my Committee, broad lines of Commercial Policy and the articles relating to the various aspects of the same constitute the very core of the Charter. The Chapter on Commercial Policy covers a wide range of important subjects, such as reduction of tariffs and elimination of preferences, national treatment on internal taxation and regulation, quantitative restrictions, export and import quotas and related exchange matters, subsidies, and anti-dumping and countervailing duties, and Customs Union and free-trade areas, etc., under General Commercial provisions. All these have an important part to play in the Fiscal Policy of an industrially backward or under-developed country, and it would be readily accepted that a country like India on the threshold of industrialisation has a most vital use of developmental tariffs, quantitative restrictions, subsidies and other measures of like nature.

My Committee have all along during the various stages of the drafting of the Charter maintained that a categorical and specific recognition should be given to the special needs and requirements of the under-developed countries

and the relevant clauses particularly under Chapter IV should be suitably modified to that effect. An analysis of the various aspects of the Commercial Policy as embodied in the Charter will reveal that the Charter in its final form has failed to show an adequate appreciation of the point of view of the under-developed countries. While my Committee are aware of the several exceptions and reservations made in respect of various important sections relating to Commercial Policy, they cannot help observing that the same have been largely inspired with a view to safeguarding the interests of the industrially advanced countries.

It is a matter of common knowledge that both the U.S.A. and the U.K. have in the past resorted to various measures including the use of quantitative restrictions, bounties and subsidies to protect and safeguard their industries against the inroads of foreign competition. As industrially efficient and advanced countries, they now need tariffs and other protective devices, primarily as emergency measures and not as protective weapons. This has been adequately secured for them by various exceptions and reservations provided for the purpose. It is significant to note that while the Charter reveals a full awareness of the difficulties of the industrially advanced countries, either ravaged by the war or in balance of payment difficulties, it fails to accord full recognition to the need for developmental tariffs in industrially backward and agricultural countries like India or China. Instead of conceding the right of industrially backward countries to resort to a legitimate use of tariffs, quantitative restrictions, subsidies, etc. solely for protective purposes, as a means of bringing about rapid industrial development in these areas, the same has been hedged in by several conditions and limitations including the clause requiring prior consent of the I.T.O. However simplified the procedure regarding prior approval of the I.T.O. may be, it does involve an unwarranted external interference with the competence of a country like India to protect her own industries by suitable measures. In the case of agrarian countries which have the task of evolving balanced economies with a view to raising the depressed standard of living of their peoples, these limitations are likely to act in an obstructive manner.

If India's post-war plans of development implying large-scale expansion of industries as envisaged in the Industrial Policy of the Government of India are to be implemented in an effective manner, the trade and tariff policies to be adopted will have to conform to the new requirements of the industry. While my Committee are aware that certain releases are permitted for a specific period in respect of import quotas, particularly for protecting industries established between 1939 and 1948 and in case of industries processing indigenous primary commodities, they would like to point out that under the Charter the same cannot be used for protecting the nascent and essential industries. As a consequence of the implementation of the policy of industrialisation, new industries are bound to be set up in the near future, and the same would naturally be entitled to protection or assistance from the Government on fulfilling certain conditions that may be laid down for the purpose. It is not possible to lay down the precise nature of protection, but on proper investigation the Tariff Board may recommend any one of the protective measures either singly or in combination. The choice may lie between a variety of measures and it may be necessary to combine tariff measures with other methods of trade control. It can be safely maintained that our demand for the right to freely resort to various protective measures such as quantitative controls, tariffs and subsidies, is not made with a view to limiting volume of trade nor for discriminatory purposes, but solely for expanding production and employment at home in order to raise the living standards of the people, an objective which is in consonance with the declared object and purposes of the Charter. However, it is doubtful whether under the provisions of the Charter, India can resort to measures mentioned above in an unfettered manner.

That India may require the use of various modes of protection according to the requirements of different industries is amply borne out by the various recommendations made by the Interim Tariff Board in their various reports. For example, in respect of the Machine Tool Industry which is a key industry of primary importance, the Tariff Board after a review of the case of the industry, recommended a protective duty of 25 per cent. But they also deemed essential a quantitative control on imports regulating the imports of the same to the extent of the deficiency in local production. This is a clear instance of quantitative restriction combined with tariff as an instrument of protection. Likewise, in the case of Grinding Wheels Industry, the Tariff Board not only recommended a high duty of 80 per cent. for 3 years, but also a total prohibition of imports for a limited period with a view to facilitate an intensive development of the industry. Again, in regard to the case of Plywood and Tea Chests Industry, the Board maintained that unless there is quantitative regulation of imports of Plywood, no amount of duty will effectively protect Plywood manufacture. Another instance where the Tariff Board recommended a quantitative import control in addition to protective duty was that of Alloy Tool and Special Steel Industry. The important point that emerges from the above is that though quantitative import restrictions or quotas and the method of protection by Tariff-cum-Quota may be considered as exceptional methods of protecting industries, the Board did recognise that mere tariffs was an inadequate method of protection and therefore recommended the combination of the same with quotas in certain important cases, making suitable provisions for the maintenance of fair prices in the form of ceiling prices as in the case of Ferro-Silicon.

Question No. 94: *Tariffs and Preferences.*—The Charter requires each member of the International Trade Organisation upon request from other member or members to enter into and carry out negotiations directed to substantial reduction of the general level of tariffs and other charges on imports and exports and to the elimination of Preferences on a reciprocal and mutually advantageous basis. Such negotiations are to be conducted on a selective product-by-product basis, affording adequate opportunities for taking into account the needs of individual countries and individual industries. Besides, particular duties may be either reduced or bound against increase. No member is required to grant concessions to other members without receiving adequate concessions in return. It may be observed that negotiations initiated at Geneva between 23 countries including India which finally lead to the General Agreement on Tariffs and Trade are to be deemed under Article 17(3) as negotiations pursuant to this Article.

It is significant to note that tariff restrictions are linked up with the elimination of Preferences. If the objective of expansion of trade and employment through multilateral trading is to be achieved, it is most essential that the leading trading and industrial nations like the U.S.A. and the U.K. must agree to reduce barriers and hindrances to trade. It is well known that both the U.S.A. and U.K. have made ample use of high tariff walls and other protective devices to promote their industrial growth. It is further a matter of common knowledge that during the inter-war period restrictive tariffs and preferences played a most mischievous role in the international world. From this point of view the future of the expansion of World Trade will largely depend upon the willingness on the part of the leading nations, particularly the U.S.A. and U.K. to substantially reduce the tariffs on the one hand and discard preferential blocs on the other. In this connection, it may be pointed out that on American initiative there was inserted in the Charter an Escape Clause (Article 40)—known as the Mexican Clause—under which a member may extend or withdraw concessions made or obligations assumed in respect of import duties, if the imports of a product have so increased as to cause or threaten serious injury to domestic producers. It may be observed that while

such a clause has little use to countries like India, the same is likely to be used by the industrially advanced countries to whom tariffs in the context of the present development has primarily an emergency value. In fact, a country like the U.S.A. who was the original sponsor of the proposals for expansion of World Trade and Employment has in the words of Jacob Viner "pledged itself to make only selective (as distinguished from across-the-board) reductions in American duties and to take into full account the effect that tariff reductions would have on the competitive capacity of American industries".

From the point of view of India, in view of the fact that the protective duties in India are few in number and the general level of the same being moderate, there exists comparatively very little scope for tariff reductions. While, therefore, there is sufficient scope for reductions of tariffs and elimination of preferences on the part of leading trading nations of the world, my Committee maintain that it would be manifestly unjust to expect industrially backward countries to offer reductions in tariffs. It is necessary to draw a clear distinction between tariffs imposed for restricting trade and manipulating balance-of-payments position and protective tariffs intended for development of domestic production and increasing employment. It is indeed true that Article 13(1) recognises that in appropriate circumstances employment of protective measures for the promotion of economic development would be justified. But as already pointed out above, it is to be remembered that the same right is subject to certain conditions and prior approval of the I.T.O. My Committee hold that the Charter should have specifically and categorically recognized the right of backward countries to utilise protective tariffs for developmental purposes.

Internal Taxation and Regulations.—Article 18 seeks to establish the basic principle that internal taxation and regulations should not be used as a method of providing protection against foreign competition. Members are required not to impose heavier taxes on imported goods than on like domestic goods. Nor must they subject the sale of imported goods to regulations more burdensome than those applying to the sale of domestic goods. Besides, members are not allowed to prescribe any regulations regarding internal quantitative regulations relating to mixture, processing or use of products in specified amounts or proportion. However, two exceptions are recognized: (i) none of the rules applies to the Govenmental procurement of goods for public use or prevents the payment of domestic subsidies, and (ii) mixing regulations already in existence are allowed to stand.

My Committee would particularly like to refer to the mixing regulations. While a country like the U.S.A. who has imposed discriminatory internal taxes on certain fats and oils and has already prescribed mixing regulations for the mixing up of synthetic materials and crude rubber in the manufacture of rubber goods will be able to retain the same under Article 18(6) a country like India will be precluded from prescribing mixing regulations regarding the mixture of power alcohol with petrol or for the mixing of foreign tobacco with the Indian one, unless prior sanction is accorded by the I.T.O. This aspect of the question deserves to be carefully considered.

Quantitative Trade Restrictions.—The Havana Charter (Article 20) requires general elimination of quantitative restrictions as a principle. Under Clause 1 no prohibition or restriction made effective through quotas, import or export licences or other measures, shall be instituted or maintained by a member in respect of the products of import or export of that member. However, certain exceptions are permitted under the Charter under which quantitative restrictions may be utilised as supplements to domestic crop restriction or price support or as adjuncts of sanctioned inter-governmental commodity agreement and as means of correcting actual or threatened balance-of-payments deficits.

Export or import restrictions are to be further permitted during the post-war transition period to effect an equitable distribution of products in short supply, to maintain price control or to facilitate an orderly liquidation of Government surplus and war industries.

While my Committee recognize that India will be entitled to avail herself of the above exceptions during the period of her present imbalance in trade and critical balance-of-payments position, it is to be noted that these exceptions and reservations have a special significance to the advanced economies. It is also possible for India to resort to quantitative restrictions from the short-term point of view for the purpose of protecting industries established between 1939 and 1948 and for such industries as are engaged in processing indigenous primary commodities. However, my Committee would like to specially emphasize the fact that the use of quantitative restrictions as an important normal protective measure is ruled out by the Charter.

It is possible to understand the strong opposition to quantitative restrictions in terms of the inter-war experience of the thirties, when exports were raised, imports were curtailed and all the weapons of commercial warfare were brought into play. While some of the evils attributed to quantitative restrictions may be real under certain abnormal conditions, they are not wholly unavoidable under suitable conditions and when applied for the specific purpose of increasing national production and employment. As already pointed out in the general observations, on the broad lines of commercial policy quantitatives restriction, if judiciously used, can be a more effective instrument for ensuring the development of industries particularly in backward countries where there exists comparatively fewer chances for their abuse. Tihs view is further borne out by the recent investigations carried out by the Interim Tariff Board that at times it becomes essential to combine quantitative restrictions with tariffs with a view to giving adequate protection to a particular industry. If India is to proceed with her plan of industrialisation, Quantitative Restrictions will become necessary for the purpose of ensuring the development of industries and selecting such of the national resources which may be available for purposes of development in accordance with the order of priorities that may be decided upon. My Committee maintain that necessary provisions in the Charter should have been included, so as to enable the backward economies to use Quantitative Restrictions as a protective measure to develop or establish industries which would otherwise be exposed to special difficulties, subject, however, to the right of the I.T.O. to review the effects of the working of such restrictions on the trade and economies of other countries.

Subsidies.—Article 25 of the Charter requires that a member who grants any subsidy that operates directly or indirectly to reduce imports or to increase exports must inform the organisation concerning the character of the subsidy, its extent, the reasons for its adoption and of its possible effects. It further provides that in case a subsidy threatens to injure the trade of another member, the country granting it should be prepared, after due consultation, to consider the possibility of modifying the same. Under Article 26 members are not allowed to grant subsidies, directly or indirectly, which result in the sale of such products for exports at a price lower than the comparable price charged for the like products to buyers in the domestic market. However, exemptions of exports from taxes on the domestic consumption of a commodity or a remission of such duties or taxes shall not be considered as subsidy. Further, when a non-member grants a subsidy a member is permitted to impose one to offset it.

While my Committee generally welcome the provisions in relation to subsidies inasmuch as they provide sufficient safeguard against dumping and other **forms of unfair competition, they** are of the view that the Havana Charter does not accord full recognition to the important role which subsidies can play in

the industrially backward and underdeveloped countries as a method of giving protection. It is generally recognised that bounties or subsidies under certain circumstances are preferable to tariffs inasmuch as they are more specific in their application and more amenable to control than tariffs. Subsidies are also deemed necessary in case of new industries, more particularly in the case of key industries and industries of strategic importance. For example, in the case of the shipping industry, which holds a pre-eminent position in our national economy, it may become essential to grant subsidies with a view to protect the interests of the national industry against foreign competition. My Committee feel that though an industrially backward country may not be able to make an extensive use of bounties or subsidies, the use of subsidies for protective purposes must be definitely recognised.

In the opinion of my Committee the major defects in the various articles under Commercial Policy pointed out above are not likely to harm our trade or industry in the short period inasmuch as sufficient exceptions and reservations have been provided in the Charter whereby industries established between 1939 and 1948 can be protected as well as release from the various obligations can be obtained during balance of payments difficulties. However, it is feared that from the long-term point of view the provisions regarding Commercial Policy are likely to impose restrictions on our freedom to utilise suitable measures of protection necessary for bringing about a rapid industrialisation of the country.

Question No. 95.—Please refer to reply to Question No. 94.

Questions Nos. 96, 97 *and* 98.—Question No. 96 has been answered in our concluding remarks; Questions Nos. 97 and 98 are covered by the preliminary observations and by the replies to the questions on Commercial Policy.

Question No. 99: *General Agreement on Tariff and Trade.*—Twenty-three countries, including India, in accordance with the resolution adopted at the first session of the Preparatory Committee of the United Nations Conference on Trade and Employment initiated negotiations between their representatives at Geneva in April 1947 with the object of achieving substantial reduction of tariffs and other trade barriers and elimination of preferences on a reciprocal and mutually advantageous basis. The nations participating in the negotiations recognised that such reduction of tariffs and other barriers to trade was essential for realisng the objectives of expansion of world trade and employment and the consequent raising of standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand. The negotiations which concluded in October 1947 resulted in the framing of the General Agreement on Tariffs and Trade. India signed the Protocol on 8th June 1948 and the Agreement accordingly came into effect provisionally on 9th July 1948. The Agreement is to be operative till the end of December 1950 after which date, the tariff concessions granted through the Agreement will be open to continuance, revision or termination. Part I of the General Agreement on Tariffs and Trade relates to provisions for general most-favoured-nation treatment and tariff concessions set forth in the schedules to the Agreement. Part II refers to national treatment on internal taxation and regulation, provisions relating to cinematograph films, freedom of transit, anti-dumping and countervailing duties, general elimination of quantitative restrictions, subsidies, etc., and such other provision of the Charter of the International Trade Organisation as are essential to safeguard the value of tariff concessions. It is understood that the provisions of the Agreement were so modified as to enable India to continue the application of her present sanctions against South Africa. Besides, special provisions have also been made to enable India and Pakistan to enter into special interim agreements with respect to the trade between them, pending the establishment of their reciprocal trade relations on a definite basis.

My Committee are in agreement with the general objectives underlying the General Agreement on Tariffs and Trade. As for provisions relating to Part II which form a part of the Commercial Policy of the Havana Charter, they would like to reiterate their view, stated above, that they do not fully meet with the needs and requirements of an under-developed country like India.

Question No. 100.—My Committee understand that the negotiations between the participating countries were conducted on a selective product-by-product basis, having due regard to the peculiar circumstances relating to each product on which concession asked for was under consideration. It was further understood that the negotiations were to be on a reciprocal and a mutually advantageous basis, no country being expected to grant concessions unilaterally, unless the same were counter-balanced by adequate concessions in return. The agreements thus arrived at between pairs of countries are subject to most favoured-nation treatment, making the concessions applicable not only to bargaining countries but to all other signatory countries. The final results of nearly 123 negotiations are incorporated in the General Agreement on Tariffs and Trade.

India conducted tariff negotiations with 15 countries and under the procedure outlined above, concessions exchanged resulted in (a) reduction in Customs duties, (b) reduction in preferential margins, and (c) binding of existing tariff treatment against future increase. The main commodities in respect of which India gave concessions relate to food items, chemicals, drugs and medicines, materials for industrial use, machinery and equipment and consumer goods. The concessions, both direct and indirect, given by India in respect of important items are valued at 10·53 lakhs on the basis of 1938/39 figures involving a net loss of revenue to the extent of nearly 24 lakhs. As against the concessions given, India has received concessions both direct and indirect, to the extent of trade of the value of 28·62 lakhs on the 1938/39 basis. The principal commodities in respect of which India has received tariff concessions are jute and jute manufactures, cotton manufactures, cashewnuts, mica, shellac, coir matting, sports goods, carpets, spices and condiments, essential oils, tea and tobacco. It is, however, to be noted that the negotiations in respect of the above commodities relate to the pre-partition period and as such important changes which have resulted in the foreign trade of India, consequent upon the partition, have to be duly taken into consideration. For example, since the partition, from an exporter of raw jute and cotton, India has now become a net importer in respect of the said commodities. My Committee, therefore, submit that a proper evaluation of the agreement should be made having regard to the altered conditions and the consequent effects on the composition of our foreign trade. In regard to the selection of items for the granting of concessions and the determination of the basis of concessions, my Committee understand from the assurance given by the Ministry of Commerce that attempt has been made to see that the concessions exchanged, exempt products which are protected or might claim protection during the next three years and avoid excessive loss of revenue.

Question No. 101.—As to the question, whether the concessions reciprocally granted and received are, on balance, in the interest of national economy, my Committee feel that the same have been in operation only over a short period and as such a proper evaluation of the concessions can adequately be made only sometime in 1950.

Question No. 102.—Please refer to Question No. 101.

Question No. 103.—My Committee have so far received no information on the point. The spirit in which the contracting parties are working the provisions of the agreement can only be judged after watching the experience and result of the working of the same over a reasonable period of time.

Question No. 104.—In view of the observations made above, the decision may be deferred till the latter half of 1950 when the relative advantages can be examined in a proper perspective.

8. *Conclusion.*—The Havana Charter for promoting an International Trade Organisation for attaining higher standards of living and for fostering and assisting international economic development is part of an overall scheme of international economic collaboration. This scheme of economic collaboration has already taken concrete shape in certain directions, such as the establishment of an International Monetary Fund and the setting up of an International Bank for Reconstruction and Development. The process is being strengthened in other social and cultural features by collective sponsored by the United Nations in various directions. The proposal for an International Trade Organisation has certainly to be considered in the context of the overall schemes for international collaboration and it would be difficult to treat the Havana Charter and the proposal for the International Trade Organisation in isolation for purposes of determining the attitude which India should adopt towards the same. My Committee feel that India will have necessarily to be guided by the above approach in dealing with this problem.

9. In deciding on the attitude of India to the Havana Charter and the commitments thereunder, three courses are open:

(a) Government may be advised that as India is not likely to derive any direct immediate benefit by subscribing to the Charter, this country, may, for the time being, decline to fall in line with the new set-up envisaged by the Charter, or

(b) Government may be advised to postpone consideration of the whole question for a period of six months or one year, till the country has a clearer picture of the whole organisation and till in the meanwhile Government of India unilaterally has decided its own future fiscal and tariff policy, or

(c) Government may be advised to subscribe to the Charter and join the International Trade Organisation.

10. The Committee of my Chamber are inclined to favour the second alternative of postponing a decision on the matter by about a year. There is considerable force in the point of view that we should wait and watch and should be in no hurry to communicate our acceptance of the Charter. In the meanwhile Government can, after the Fiscal Commission has made its recommendations, in the light thereof, formulate their own long-term fiscal and tariff policy. The enunciation of that policy will place the country in a position of advantage in that the Government of India can reasonably take up the attitude that their subscribing to the Havana Charter would be subject to their being allowed the necessary freedom to implement and give effect to their own tariff policy. My Committee, therefore, suggest that the Fiscal Commission will give due consideration to the feasibility of recommending to the Government of India the desirability of postponing a definite decision on the issue for a period of about one year.

11. In conclusion, my Committee hope that the Commission will give due and careful consideration to the general observations made and the replies to specific questions under the different Sections of the Questionnaire. If necessary, they will be pleased to send their accredited representatives to tender oral evidence and clarify the points or issues raised in the memorandum.

Yours faithfully,

A. C. RAMALINGAM,

Secretary.

Secretary and Adviser to the Madras Chamber of Commerce, Madras

PART II

Question No. 89.—Yes. The basic purpose and objective underlying the charter are soundly conceived. The most likely criticism to be encountered is that in practice the measures do not go far enough. The answer to such a criticism is that it is better to proceed slowly in the desired direction than to be halted or turned back because the pace is too fast. The question, therefore, is whether the direction is the right one. The object of the General Agreement on Tariffs and Trade is an attempt to restore a system of world trade which can only flourish when free from the shackles of monetary exchange restrictions. The document amply recognises that these restrictions must continue and must act in restraint of international trade. The end, *i.e.* Free-er Trade, may not be capable of immediate achievement, or even within the foreseeable future, but the direction is undoubtedly right.

Questions Nos. 90, 91 *and* 92.—Yes. The charter goes perhaps even too far in the provision of devices whereby the signatories may take any action that appears desirable to them in their own interests. There is nothing in Chapter 3 of the Final Act which is likely either to encourage or to impede the flow of foreign capital, or to prevent India from determining her own policy as to its employment. The flow of foreign capital into India will be influenced more directly by political developments in India.

Questions Nos. 93 *and* 94.—Yes.

Question No. 95.—No.

Question No. 96.—Yes.

Question No. 98.—No comments.

Question No. 99.—Yes.

Question No. 100 (a) *and* (b).—The concessions granted and received appear comparatively unimportant. Comments can only be offered after studying the effect of these concessions.

Question No. 101.—Yes.

Question No. 102.—No.

Question No. 103.—I have no information.

Question No 104.—Yes.

The Southern India Chamber of Commerce, Madras.

I am directed by the Southern India Chamber of Commerce, Madras, to refer to the questionnaire issued by the Fiscal Commission and to place before you the views of the Chamber on the same.

The Chamber notes that the Fiscal Commission is charged with the duty of examining the working of the policy of the Government of India with regard to the protection of industries since 1922 and to make recommendations as to the future policy which government should adopt in regard to protection to and assistance of industries and the treatment and obligations of the industries which may be protected or assisted. The Chamber further notes that the Commission is asked to make recommendations as to the machinery required to implement any policy they might advocate and also on any other matter having a direct bearing on the effective implementation of this policy.

That, there is need for formulating a fiscal policy appropriate to the present day conditions of the country needs no stressing. The Government of India had recognised this when they announced their industrial policy in 1948.

In this connection, the Chamber would like to place before the Commission a matter which has a vital bearing on the question of laying down an appropriate fiscal policy. It is the subject of taxation of Industry in India which has a close bearing and effect upon any scheme of rapid industrialization. The present tax structure, it is felt, very heavily presses on the industries of the country with the result that it has robbed all incentive to start new industries. What is more undesirable is that the level of direct taxation is so high, in fact it is higher than in U. S. A., Canada, Australia and other advanced countries, that no savings could be effected with the result that capital for new business enterprises cannot be found inside the country. Therefore the existing tax structure has to be examined closely with a view to relating it to the needs of an infant industrial economy like ours so that its incidence need not prevent adequate profit margins and also new capital being formed from savings.

Another question to which the Chamber would like to refer in this connection is with regard to the participation of foreign capital in the country's industrial programme. No doubt the Government of India have referred to this question of participation of foreign capital in the development of our country's industries but it is felt that the Fiscal Commission should go into the question thoroughly and after a close examination of the same should make suitable recommendations. It is no doubt true that the country requires enormous capital resources for developing her industrial potential and that therefore there is great need for inviting foreign capital as our capital resources are not sufficient for establishing all the industries that our country needs. The Government have stated that there will be no discrimination of any sort against foreign capital and that no restrictions would be placed in their way of making reasonable profits and on remittance of such profits abroad and that in the event of compulsory acquisition of the foreign enterprises compensation will be paid on a fair and equitable basis. Whenever foreign capital collaborates and works in partnership with Indian capital and management, it may be treated in the same manner as Indian capital. If on the other hand if foreign capital, where ownership and management are not in Indian hands are to be admitted into the country and give the same favourable treatment as is given to national and national *cum* foreign investments there might be some anomaly in the situation. The Tariff Board which examined the claims of certain industries for protection have raised this very issue. They observed that "*Prima facie* it would appear anomalous that the Indian Government should pay subsidy to a concern the major portion of the capital of which is held by nationals of other countries". They, therefore, suggested that "it is also a matter of consideration by Government whether as a condition precedent to a grant of subsidy the company should be called upon to alter its constitution so as to vest the majority of the share capital and control into Indian hands within a reasonable period". Therefore, the Chamber would suggest that the Fiscal Commission should also keep in view this aspect of the matter of participation of foreign capital in the development of the country's industries.

More important than foreign capital is technical help from foreign countries to develop our industries. There is therefore clear need for importation of foreign technical personnel. They should be allowed to work in Indian industries till such time as the industry needs and Indian personnel are able to learn the "know how". Therefore the Fiscal Commission may advise Government to allow foreign technical personnel to be invited into the country without restrictions as to period of service.

Replies to the questions as far as possible are given below:—

PART I

Section A(i)

1. The last report of the Indian Fiscal Commission was in 1922. Since then many changes have taken place both on the political and on the economic fronts. First we have won political freedom which has given us control over our own matters so that we can frame an economic policy consistent with international obligations, best suited to our interests. The period after 1922 had witnessed many upheavals in the economic situation of the world which has naturally affected our country. During these years though our country remained mainly an agricultural one there were some changes in the industrial field and many industries were established during this period. The recent world war has demonstrated that it is dangerous for countries to depend for essential supplies on other countries. Therefore there is necessity to develop industries that are necessary for our defence and essential civil supplies. Indian shipping, banking and insurance businesses have recently come up and deserve active help. There is need for raising the standard of living of the country which can be done only by increasing both agricultural and industrial production. Therefore there is a necessity for a Fiscal Commission to determine how the objectives could be achieved by a suitable policy so that we can rapidly promote the industrialization of the country and raise the standard of life of our people.

2. It may be broadly stated that so far as the agricultural situation of the country is concerned there has not been any marked progress. Production had remained at the same level and if at all has gone up only to a small extent which is not appreciable. With regard to production of commercial crops due to the need for producing more food crops there has been a fall in the acreage of cotton, jute, oil seeds etc. With regard to consumption of agricultural commodities there has been an increase in the demand due to increase in population as well as due to demand of industries for raw materials like sugar-cane, jute, cotton, oilseeds etc. With regard to international trade in agricultural commodities during the war years has been a decline in the export of raw materials and an increase in the export of semi-manufactured or manufactured. Previously we had more than 60 per cent. of import of manufactured goods whereas we exported only about 30 per cent of manufactured articles. But now as has been stated before the situation has altered but then this may be a temporary trend due to the war and the after effects of war.

3. The curtailment of acreage of commercial crops may affect those industries which depend on these crops for their working (sugarcane, cotton, oil seeds etc.). Therefore, there is need to produce sufficiently raw materials that are necessary for our industries. We should be able to provide raw materials for all our industries as otherwise we may not be able to achieve industrial progress. For instance if we do not have adequate stocks of cotton or jute we may not be able to maintain our hold in the foreign markets where these goods are sent. Also we should be able to meet the demand inside the country.

4. Our agriculture must be improved so that we may be able to attain self-sufficiency in food. Also we should be able to produce crops that have good export value such as tea, coffee, jute, tobacco, oil seeds, cotton etc. The average yield per acre which is very much below that of any other country should be increased in order to attain the above objectives. Our mineral resources such as mica, manganese, etc., should be conserved and prudently exploited. The Central Government should have the control over the mineral resources of the country and now this is accepted as a matter of policy; but there must be a uniform policy in all the Provinces to exploit our mineral resources. We should not export minerals of which we are in short supply.

(5) The policy of discriminating protection laid down by the Fiscal Commission of 1922 was inadequate to the needs of the country. The conditions laid down under the triple formula were unduly stringent and could not give effect to a policy of industrialisation. The policy of discriminating protection was so halting and so slow that in spite of our country possessing great natural advantages such as abundance of raw materials, supply of cheap labour, adequate source of power, etc., we did not proceed rapidly on the path of industrialisation. It did not meet the requirements of an industrially under developed country like India. If we have adopted a bold policy of protection without unduly tying ourselves to the triple formula laid down by them we could have achieved a good measure of industrialisation. While iron and steel, cotton textiles, sugar, paper, magnesium-chloride, artificial silk industries, etc., received protection at various stages many of these industries did not benefit directly from protection. In some cases where the Tariff Board recommend protection the Government rejected the Board's proposal as in cement, heavy chemicals, glass, woollen industry, etc. Further the method of granting protection was so dilatory and slow that it created many obstacles in the way of the industry applying for protection. Many of the industries were prevented from developing owing to this state of affairs. The glass industry, heavy chemicals and several other industries could not be developed due to this policy of discriminating protection. An applicant industry had to prove that it possessed natural advantages. It had to prove also that it was not likely to develop at all without the help of protection. But as has been stated before no doubt certain industries benefited by protection like cotton, sugar and iron and steel.

(6) Our industrial development very much falls short of our essential requirements. Our industrial structure is very weak and the absence of many industries shows as unbalanced economy which is largely dependent on agriculture. We should have essential defence industries as it would not be prudent on our part to rely on foreign countries for our defence. Certain basic and key industries such as iron and steel, ship-building, heavy machinery like automobiles etc., electric equipments, heavy chemical industries and other essential industries needed for our defence requirements are necessary. Other essential industries required for civilian purposes are cotton and woollen textiles, silk and silk manufacturers, sugar, matches, motor vehicles, glass industry, etc., etc. We must also greatly develop shipping, banking and insurance services. The volume of production needed is great in all sections than has hitherto been obtained. The panels for various industries have set up certain target figures which must be arrived at as early as possible. The target fixed by the panels for different industries which have been accepted by the Advisory Planning Board are necessary for the needs of our country. The supply of Capital is not adequate for developing all our industries. Therefore, there is need for increasing the supply of capital for founding new industries. The shortage of raw materials for various industries is really a problem for our country. Many of the raw materials have to be imported from foreign sources and Government should find it possible to secure the imports of such raw materials so that the growth of our industries may not be affected. Our present requirement of coal can be supplied from the country itself. But with regard to power we are still very far from our requirements. Water power can be cheaply harnessed and the Government should develop the various projects they have in view. Shortage of technical labour and trained personnel has been a serious handicap in the development of our industries. Therefore, an industrial bias in education must be given as recommended by the Fiscal Commission of 1922. It is not possible for the country to initiate and carry on industries on a large scale unless it has a trained personnel who can direct and manage these industrial concerns. Therefore there is imperative need for getting technical assistance from foreign countries. The Government should,

also establish the needed higher technical institutions and must train technicians. The efficiency of labour in India has not been high compared to other countries. This may be partly due to want of education on the part of the labourer and also up-to-date machinery.

(7) In an agricultural country like ours it is but natural that cottage and small scale industries should have found a place in the economy of the country. Among the subsidiary occupation of the agriculturists are hand spinning and weaving, beedi-making, flour grinding, rice pounding, basketmaking etc. Steps must be taken to protect and develop the cottage and small scale industries. The small scale and cottage industries must be closely related to agriculture as the agriculturist who do not have a busy time throughout the year may be able to earn his subsidiary income through these industries. The cottage and small scale industries should supplement one another and not compete. For instance small power loom factories are eclipsing the handloom weaver, and other cottage industries like tile-making, furniture-making etc., meet with competition from factories. If different designs suited to the demands of the market could be made by the individual worker, there is no reason why the small scale cottage industries should be eclipsed by big industries. Since cottage and small scale industries are an integral part of our economy they are not likely to be seriously affected by the development of large scale industries. They can co-operate with one another and enrich production.

(8) Both small scale and cottage industries will have to play a significant role in the economic development of our country not only now but also in the long run due to our country having a predominantly agricultural economy.

SECTION A(ii)

(9) Many cottage industries can be developed such as paddy husking, oil pressing, gur-making, bee-keeping, bidi-making, pottery, glassware, tiles and brick-making, carpentry, rope-making, dairy-farming, coir and bamboo-matting etc. As supplementary to the large scale industries we can have workshops for motor parts, tape-making, bobbin-making, machine-made brass, copper and aluminiumware parts, watch manufacture, furniture etc. The following small scale and cottage industries may be developed as independent units of production like shoe-making, toy-making, cutlery, fruit products, ivory carving, toilette products, confectionary products, dye making, button manufacture etc., etc.

(10) Our artware such as handmade woodworks, brass artwares, ivory handy works, enamelwares, cotton and silk embroidery, coir and coir products are suitable for export purposes.

(11) Protection to large scale industries do not seem to have seriously affected small scale and cottage industries. There may be cases where a small scale industry may have to depend on products of a protected industry for use as raw material. Here some provisions must be made to safeguard the interests of such small scale industries.

(12) Our cottage industries have deteriorated due to want of encouragement from Government. They must be supplied with adequate finance in times of need to carry on their operations. Technical skill also must be provided for them. The most important form of assistance that could be rendered by the state is to organise these industries, and give publicity to their products thereby creating good markets for their goods. These industries can survive by virtue of their variety where they can make individual designs which may not be possible by large scale industries which will produce only on a large scale particular types.

(13) There is a great scope for the products of small scale and cottage industries to find markets in foreign countries if they are given adequate publicity and help. For instance our handloom textiles, ivory and other artware work will find good markets in foreign countries.

SECTION B

Policy of Discriminating Protection and its Applications since 1923

(14) and (15) The Fiscal Commission of 1921-22 stated that though India was an agricultural country it possessed great advantages such as abundance of raw materials, ample supply of cheap labour and adequate sources of power to enable the country to develop her industries. Yet they recommended a policy of discriminating protection. They applied a triple formula for an industry which sought protection *viz.*, that it must be one possessing natural advantages such as an abundant supply of raw material, cheap power, a sufficient supply of labour and a large home market; next that it must also be one which without the help of protection either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interests of the country and finally it must be proved that the industry will eventually be able to face world competition without protection. It has already been said before how this policy of discriminating protection did not promote the growth of Indian industries. The minority in their dissenting minute stated that the main recommendation has been hedged in many conditions and provisos which were calculated to impair its utility. The Tariff Board almost religiously applied the triple formula when investigating the qualification of the each industry applying for protection. The result was that the country did not benefit much by this policy of protection. The method adopted for granting protection also left much to be desired. Without directly applying for protection to the Tariff Board, Industries had to submit their cases to the Commerce Department which decided first whether protection to that industry was necessary Therefore, the machinery, procedure and formalities connected with the implementation of the policy of discriminating protection also left much to be desired. Though according to the recommendations of the Fiscal Commission the Tariff Board was to be a permanent body, different Tariff Boards were separately constituted for each enquiry, and thus the most important recommendation of the Fiscal Commission *viz*., to constitute a permanent Tariff Board was ignored. Again the powers and the functions of the Board were not defined in a statutory manner. In the case of sugar, woollen, glass and match industries the Government did not accept the Tariff Board's recommendations. The Board could investigate only cases of those industries which were referred to it by Government. The Fiscal Commission's recommendation that the Government should publish the results of the enquiries was also not observed.

(16) The laying down of the three conditions by the Fiscal Commission of 1922 for qualifying for protection were unduly rigorous. Therefore, it will not be to the interests of the country to adhere to these conditions for granting of protection to any industry. Both Japan and United Kingdom have cotton textile industries but they do not have the raw materials for these industries in their own country. Again rubber goods are manufactured in U. S. A., though the raw material has to be imported into the country. In spite of want of raw materials these countries have developed these industries in their own country. The strict interpretation of these conditions had resulted in denying assistance to many industries that would have developed had they been granted protection. The policy laid down allowed existing industries to develop but it did not protect industries that would have grown had they been given protection. Therefore, a more liberal policy has to be pursued for granting protection. We have before the country a great plan for industrialisation and Government in their

industrial policy have stated as their objective the promotion of industrial activity. Therefore there is need for a policy of rapid industrialisation. Most advanced countries like United Kingdom, Germany, France, U. S. A., Australia and Canada have achieved their industrialisation by only resorting to protection.

(17) The Fiscal Commission of 1922 recommended the following supplementary measures for the protection of and assistance to industries:—

(1) Industrial bias in primary education and training of apprentices, giving facilities for cheap transport and taking appropriate measures against dumping. With regard to giving an industrial bias in education we have answered the question in answer to question No. 6. There is need for giving technical training to a large number of our labour. With regard to the railway rates policy it was found that the railway rates were so framed as to encourage the traffic to and from the ports at the expense of internal traffic. They recommended that internal traffic should be encouraged. Some concessions after great agitation have now been made on this question of railway rate policy and recently telescopic rates have been made available on continuance lines. It is to be hoped that the recently constituted Railway Rates Tribunal will look into any anomaly in the present rate structure and evolve a policy suitable for the growing needs of the country in regard to her industrial programme. Besides these the Government can give other assistance to industries by providing finance, scientific research and other help.

(18) (a) The qualifications laid down for the grant of protection led to halting and negligible help to industries.

(b) The Central Assembly accepted the principle of discriminating protection subject to the following qualifications that in the application of the principle of protection regard must be had for the financial needs of the country and to the then dependence of India on export import and excise duties for a large part of their revenue. The result was that as India depended upon a revenue tariff at that time for finding her revenue it led to weakening of the case of protection and the measure of assistance given to industries because of the fear that the revenue of the Government would suffer. It must be borne in mind that the fiscal policy is intended to give protection to industries and revenue considerations should not form the criterion for granting assistance to industries. Now of course a great reliance is placed on direct taxes and excise duties and what the state loses by way of customs revenues will be made up by increase in the Incometaxes from industries protected. The commission itself observed that industrial development increases national wealth and therefore, will increase the taxable resources of the country and bring increased revenue to the state. Therefore undue importance should not be given to revenue considerations of the Government, when giving of protection to particular industries is to be decided.

(19) During the war with the cessation of imports many new industries were established in India. The Government assured industries which started during the war that they would be protected if and when necessary provided they were organised on sound lines. Soon after the announcement of their industrial policy in 1945 an interim Tariff Board was constituted for a period of two years to investigate into claims of protection or assistance to war time industries. The terms and conditions for the grant of protection were that the industry is established and conducted on sound business lines that having regard to the natural and economic advantages enjoyed by the industry and its actual or probable cost it is likely within a reasonable time to develop sufficiently to be able to carry on successfully without protection or state assistance or that it is an industry to which it is desirable in the national interests to grant protection or assistance and the probable cost for such protection or assistance to

the community is not excessive. While admitting that these terms and conditions are better than those laid down by the Fiscal Commission of 1922 it should be pointed out that these conditions must not be strictly interpreted.

(20) This policy of 1945 is being fairly implemented by the Tariff Board.

SECTION C

Review of the Facts of Past Tariff Policy

(21) to (27) The concerned industries may be requested to furnish the statistical data required.

(28) It cannot be said that the revenue tariffs imposed in the past have had any appreciable effects on the growth and development of our industries and on the course of our export and import trade. The Fiscal policy of the Government of India up to 1923 remained largely free trade in its orientation and the revenue of the Government was the dominating consideration in deciding upon the rates of tariff to be levied. In the case of the sugar industry it should be noted that though imported sugar has been subject to a high revenue duty even before the sugar industry became a protected industry in 1932, the industry did not develop as a result of the revenue duty. The rate of revenue duty on sugar was 5 per cent. *ad valorem* from 1894 to 1915 and gradually rose to 25 per cent. *ad valorem* in 1922. The *ad valorem* rate became almost 50 per cent from 1925 to 1930. In 1930 the specific duty worked out to an *ad valorem* rate of 120 per cent. The sugar industry enjoyed the advantage of these high rates of specific revenue duty for all these years and yet did not develop on account of the revenue duties.

(29) Due to denial of protection to many industries that might have grown if they were given the assistance by the state we have to import a number of commodities we could have manufactured and we have to export raw materials that could have been utilised in the country itself if the relevant industries had developed inside the country.

SECTION D

Import Control Policy

(31) During the war years and in 1946 to 1949 changes have taken place in the pattern of our foreign trade. In 1939 to 1945 India exported a greater percentage of manufactured goods while she imported less of manufactured goods than before. On the other hand she has imported raw materials to a greater extent. A change in the direction of trade also was noticeable in that after 1945; a larger percentage of trade took place with nonempire countries particularly U. S. A.

(32) During the war years the Government had to control imports due to the necessity for conservation of dollar and other hard currency resources and also due to want of shipping space. But in 1947 due to the availability of foreign exchange a change was made in the import policy. The result has been that in the previous period *viz.*, 1939-45 our imports were limited to essential articles whereas in the latter period we had imported many luxurious items The restrictions on the export trade created lot of difficulties as we could not export to our traditional markets. No doubt due to the import controls some industries were started inside the country but it could not be stated that there has been a significant change in the country's economy as a result of the legislative and administrative measures relating to the control and regulation of foreign trade by Government.

(33) These changes in our import and export trade during the war years could not be said to have affected the premises on which the recommendations of the Indian Fiscal Commission of 1922 were based.

(34) It may be necessary for the Government to grant tax concessions for infant industries and for industries that can be started in the country at least for a few years till hey are well established. Provincial taxation must not hamper the growth of industries and there must be a uniform policy with regard to taxation of industries. Other fiscal measures would be grant of protection. The non-fiscal measures needed to promote our industries would be supply of industrial raw materials, technical personnel etc.

(35) An appropriate tariff policy would be one which would develop such of those industries which have natural advantages and also those industries which are desirable in our national interests.

(36) The objectives of the tariff policy in the short period should be to grant protection to such of those industries which are likely to develop within a short period and thereby reduce our dependence on foreign supplies.

(37) Yes. There should be an unqualified pronouncement that the fiscal policy best suited for India is protection.

(38) As has been stated before the principles and conditions for regulating the grant of protection or assistance should be such as to enable the country to develop the industries that are necessary in our national interests and also those that can be developed within the country.

(39) Special consideration or priority should be given to industries which are essential for our defence. Such other industries which can be developed soon should also be given preference.

(40) Protection should be considered if necessary even before an industry is established as otherwise industries which can be established with advantage may not come up.

(41) The methods of granting protection may have to vary from industry to industry. But generally protective tariff is the commonly accepted method of giving protection. In certain cases subsidies may have to be given. Subsidies may be resorted to in case where production is only a very small amount of the total need so that after production reaches a substantial amount protection may be granted. The system of pool prices as an instrument of protection is not satisfactory Quantitative restrictions *viz.*, limiting the quotas of import may also be necessary when the home industries are not able to produce all that is required. The normal method of course should be that of protection through import duties.

(42) Dumping has been defined by the Fiscal Commission as "the sale of imported merchandise at an F.O.B. price which is lower than the prevailing market or wholesale price in the country of production". Therefore, the Commission recommended that dumping must be counteracted by appropriate legislation. The only safeguard now against dumping is the levy of an import duty. What is needed is legislation to prevent dumping by foreign countries in the Indian market.

(43) As far as possible no export duty should ordinarily be imposed except for purely revenue purposes and then only at very low rates. Export duties may be levied on monopoly products and efforts must be made to see that the export trade does not suffer on account of the levy of their duties. Export control may have to be resorted for safeguarding the domestic consumer against

critical shortages and for conserving domestic supply of raw materials for utilization for home industries.

(44) Established industries, in order to maintain their exports, may have to be assisted by giving tax reliefs say by taxing the profits of the export trade. The Export Promotion Committee has also recommended this method.

(45) The present method adopted by the Tariff Board in fixing the quantum of protection by the method of comparing the fair selling prices of the domestic products with the landed cost of the imported products seems to be the right procedure. This, while protecting the industry, would also protect the consumer by fixing the rate of protection at the minimum level.

(46) As far as possible variations in duties to meet variations in import costs may be necessary.

(47) A specific duty is preferable to an *ad valorem* duty which is easy to administer. But a specific duty has also its disadvantages because when in a period of falling prices the specific duty will prove very high. A combination of both specific and *ad valorem* rates may be tried as this may prove equitable.

(48) Tariff quotas, as far as possible, should be restricted to only one case when our home industries are not able to produce to the extent needed by the country.

(49) The duration of protection should be for such period which would afford sufficient time for the establishment of the industry on a sound basis. The length of time to be allowed should not be too short. A minimum period should certainly be laid down for giving protection.

(50) The revenue tariff classification should be so arranged so that all raw materials which have to be imported for our industrial development should not be subjected to high import duties. No nation can have a high standard of living unless it has learnt to use the available man power and materials for the maximum production of wealth. We must industrialise very rapidly and fiscal policy rightly conceived can be a potent weapon for national planning. Re-orientation of the fiscal policy is necessary and our long term fiscal policy should aim at developing all our resources so as to enable the country to have all industries that we can possess.

(52) There is no reason for the Government to participate in foreign trade. The incursion of the state in actual trading operations would lead to undesirable results.

(53) In view of the answer to question 52 this question does not arise.

SECTION E

Non-fiscal measures for the promotion of Trade and Industry

(54) The Indian Fiscal Commission of 1921-22 suggested several supplementary measures as an aid to the tariff policy. Government must also give positive help by making available essential raw materials, cheap fuel and power, adequate transport and technical personnel in order to help the rapid industrialisation of the country.

(55) (a) Government can facilitate the supply of essential industrial raw materials where these are not readily available in the country by importing such raw materials duty free and also by giving rebate. They can also import essential plant and machinery by reducing the duty on the import of these capital machinery etc. With regard to the provision of cheap, adequate and quick transport supply of cheap fuel or power and supply of technical personnel

answers have already been given. With regard to the supply of industrial finance recently the Government have started the Industrial and Finance Corporation. It grants advances or guarantees advances against the security of tangible assets. Some Provinces also have started these Finance Corporations to aid industries. What is needed is to extend their activities and to enlarge the scope of industrial finance so that industries need not, for want of finance, be handicapped in their growth.

(56) and (57) By constituting joint Committees of representatives of trade and industry and Government Departments concerned it would be possible to secure co-operation between industry and trade.

Section F

Fiscal policy in relation to Commonwealth preferences

(58) With the advent of imperial preference and economic nationalism everywhere India has lost the favourable balance of trade engaged with her non-empire customers. She has to fall back upon the empire countries for a favourable balance of trade. The principal commodities to gain by the British preferences were rice, tea, tobacco and jute manufacturers. The remaining articles on which preferences were granted did not enjoy any substantial increase. In the case of U.K., all her imports gained advantages. India granted preferences on raw materials whereas we granted protection to British imports which have to compete with imports of other foreign countries. Popular opinion has been against the granting of imperial preferences. The Ottawa Agreement was not well received.

(59) In case the scheme of imperial preference is continued the following principles should be observed *viz.*, no preferences should be granted on any article without the approval of the legislature that no preference be given in any way that will diminish the protection required by the Indian industry and that preferences should not involve on balance any appreciable economic loss to India.

(60) and (61) It would not be possible to analyse the effects of the preferences granted and received by India and United Kingdom respectively under the Indo-British Trade Agreement of 1939 as the same came into operation at an exceptional time *viz.*, at the outbreak of the war. Since there are import export restrictions now it is not possible to attempt at an analysis of the effects of the preferences granted.

(62) Imperial preference has increased the burden imposed upon the consumer in consequence of raising the general rate of duty.

(63) As regards exports there is no doubt that the export of non-preferred articles increased by a far greater percentage than those of preferred articles both in the case of the United Kingdom as well as other countries. There has been a relatively greater increase of export to United Kingdom both in the cases of preferred as well as non-preferred articles. But it is stated that a very considerable diversion of India's exports from non-empire countries to the United Kingdom took place but these increase of exports to United Kingdom had no positive value in adding to our total export trade.

(64) Since India's exports to United Kingdom consist of jute and tea which are the principal beneficiaries under the agreement and as these would maintain their position even without preferences there is no reason to think preferences are likely to confer any bargaining strength on Indian *vis-a-vis* the United Kingdom and commonwealth countries.

(65) The whole question should be re-examined afresh. These preferences will reduce our bargaining strength with other foreign countries in respect of

items that may be needed from them. Therefore, they should be continued only to the extent that they do not seriously affect our trade with other non-empire countries.

SECTION G

Treatment and obligations of protected and assisted Industries

(66) Industries that received protection and assistance from Government certainly owe a special obligation to the rest of the community as regards the manner in which they render their services. They should be able to achieve good progress and be able to offer substantial results. Their prices must gradually come down so as to benefit the consumer who voluntarily submits for the burden of protection in the earlier years of the industries growth. With regard to wages and conditions of labour there are various acts of the Central Legislature like the Factories Act, the Minimum Wages Act, State Employers Insurance Act etc., that already protect the labourers. They should no doubt adopt technological improvements in order to achieve progress in the development of the industries. They should contribute to research and to technological aids in production. They must be willing to take and train apprentices.

(67) The protected industry should not charge monopoly prices and embark on any restrictive practices either in respect of production or of distribution. Their prices also must not be very high so as to make the burden to the consumer very heavy.

(68) It may not be necessary to lay down any conditions regarding the financial structure of the industries receiving protection.

(69) The Indian Standards Institution which has started functioning may be asked to lay down standards. It is not necessary for the Government to start an organisation for laying down standards in respect of various commodities.

(70) The obligation that assisted industries should render may be left to the Tariff Board who may make recommendations on the matter.

(71) It is not necessary for any special administrative machinary to ensure that these obligations of protected and assisted industries are duly discharged. The Tariff Board itself may watch the progress made by the industry and review periodically the results of such protection on the growth of each industry.

SECTION H

Organisation, methods and procedure

(72) The existing administrative organisation will not adequately deal with the problems of implementation that may arise out of the Government's acceptance of a comprehensive policy as regards fiscal measures and non-fiscal measures.

(73) Therefore, a permanent Tariff Board statutorily recognised must be entrusted with the task of implementing the recommendations of the Fiscal Commission.

(74) An Industrial Planning Commission may be set up which may deal with the planning and execution of the various measures and it may have a number of suitable small branch organisations to deal effectively with the various questions referred to it.

(75), (76) and (77) Please refer to answers above.

(78) The Fiscal Commission of 1922 recommended that the successful working of any scheme of protection would require the existence of a thoroughly

competent and important organization or Tariff Board which should enquire into the condition of industries and recommend whether protection should or should not be extended to them etc. They said, that the Board must be one which will command the confidence of the Country and must be above suspicion of being subservient to any particular interest. They wanted the Board to be a permanent body. The Tariff Board should be a statutory body also.

(79) The Tariff Board should have powers to undertake investigations on its own initiative and should have power to review the progress of protection of industries from time to time. The Fiscal Commission of 1922 in para. 306 of their Report have given the appropriate functions to be performed by the Tariff Board. In addition the Tariff Board may suggest measures for the attraction of capital on fair and equitable terms of industry, to watch the progress of industries that have been granted protection, to consider the effects of the preferential and the other trade agreements on the trade and industries of the country to study the effects of industrial policy on national income to recommend programmes of research and technical development to be undertaken by Government for assisting industries etc.

(80) Please refer answer to question 79.

(81) It may be necessary for the Government to assist the Tariff Board by giving them the help of technical organizations who would be able to advise the Tariff Board on technical subjects.

(82) and (83) The Tariff Board should also be able on its own initiative to investigate the question of granting protection to industries that are essential to our national economy.

(84) The application for protection should be made direct to the Tariff Board.

(85) By applying direct to the Tariff Board much delay would be reduced and further the Tariff Board if enlarged would more expeditiously complete its investigations soon.

(87) The Tariff Board's recommendations should normally be accepted by Government and implemented by it.

(88) The Tariff Board should be placed on a statutory basis. The statute should lay down the composition and functions of the Tariff Board.

Question 89.—Do you approve the basic purpose of objectives underlying the Havana Charter on Trade and Employment? The basic purpose of the Havana Charter on Trade and Employment is set forth in article one of the same which aims at the attainment of the higher standards of living full em- ployment and economic progress and development. To attain these objectives it aims at developing world trade by removing restrictions therein. In short, it wants to liberalize International Trade. It will be seen from the reading of many provisions of the Charter that it is more concerned with removal of restrictions on World Trade, rather than with measures to develop the under- developed countries. Unless various countries of the World are placed on a relatively equal fitting in regard to their economies the under-developed countries cannot in toto subscribe to the principle of free trade which is aimed at in the Havana Charter.

Question 90.—Do you consider that the provisions and safeguards laid down in the Charter for the economic development and reconstruction of backward and under-developed countries are adequate for the requirements of India?

Here it may be mentioned that originally when the proposals emanated from the United States Government, these proposals ignored the needs of economically

backward countries. It was because the Indian Delegation made persistent efforts, Chapter 3 of the Charter on economic development and reconstruction was added to the Charter. This Chapter recognised the view point of the under-developed countries such as assisting their industrial and economic development etc. It is felt that the provisions contained in that Chapter will not be of great assistance to these under-developed countries. Any action that might be necessary for economic development should be in accordance with the general principle of liberalisation of World Trade. Further, if any country wants to resort to measures for developing its economy, it has to put up its case before the International Trade Organisation and its approval may have to be sought. This means that there will be a number of obstacles to be surmounted before we can adopt an economic policy suited to our needs. In short it is doubtful whether India without referring to the I.T.O., can pursue policies of vigorous economic development, if she undertake the obligations of membership of the I.T.O.

Question 91.—If not, to what extent, do you think these provisions and safeguards fall short of India's minimum requirements?

It will be seen from the answer to the above question that the provisions laid down in the Charter for the economic development of backward and under-developed countries are not adequate. The I.T.O., is not called upon to help positively in respect of developing the under-developed countries. Therefore, the under-developed country must be free to pursue a policy of economic development, without obtaining prior sanction of the organization, with regard to certain actions (as for example levying duties, adopting a protective tariff policies etc.) she takes for the development of her economy.

Question 92.—In particular, do you consider that the terms and conditions proposed in the Charter for (a) the continued employment of existing foreign capital, and (b) new foreign investment, are broadly in conformity with the requirements of India?

The Committee notice that one of the objectives of the Charter is to encourage the International flow of capital. It has to be noted here that it is left to the bargaining capacity of the member countries to settle the terms of foreign assistance. So far as the question of foreign investment is concerned the Prime Minister has already enunciated the policy of the Government of India which states that the existing foreign interests would be free from any discriminatory restrictions that the facilities for remitting of profits earned in India would be continued and that if any foreign enterprise was compulsorily acquired the compensation would be paid on a fair and equitable basis. The provisions of the Charter as stated in article 12, is in accordance with the policy laid down by the Government of India.

In this connection, the Chamber, would like to observe that participation of foreign capital should be allowed only in those spheres of industry which have not yet been properly established in this country and which require technical knowledge now not present in the country. If foreign capital is allowed to be employed in industries which have already been developed by indigenous capital and in industries where indigenous capital is prepared to develop it will cause great harm to the interests of the country. Therefore foreign capital should be allowed wherever indigenous capital is not forthcoming. Technical assistance is very important and should be allowed very freely without any restriction.

Question 93.—Are you in agreement with the broad lines of the commercial policy as set out in Chapter IV of the Havana Charter?

This Chapter which relates to commercial policy is in fact the most important chapter in the Charter as it imposes the obligations of membership of the International Trade Organisation. The obligations which a member country

have to accept if it becomes a member of the International Trade Organization would involve recognition of the principle of most favoured nation treatment, reduction of tariffs and elimination of preferences, equal treatment between domestic goods and foreign goods in respect of internal taxation and regulations, general elimination of quantitative restrictions, non-subsidization of exports except permissible exports etc. India in the present stage of her economic development cannot agree to these broad lines of commercial policy as set out in this Chapter as it would injure India's interests. The reasons for taking this view would be evident if we examine some of the important provisions of chapter IV.

Article 17 of chapter IV calls upon every member to enter into and carry out with members, negotiations directed to the substantial reduction of the general levels of tariffs and other charges on imports and exports and to the elimination of preferences. There are other commitments which members have to observe. From this it will be clear that the Charter provides scopes for countries which may be affected by our imposing revenue customs duties to raise objections and thereby create difficulties for our country adopting a tariff policy best suited to our needs. For example if India puts up a high protective duty on the import of a particular article of manufacture the country or countries whose sales will be thereby affected may approach to the I.T.O. and complain that India's action in that regard had amounted to placing restrictions on International Trade. India may have to explain her case and thereby she will lose her economic freedom as she has to explain her position and get the approval from the International Trade Organisation before resorting to a tariff policy which will prove conducive to her interests. No doubt the Committee is aware that it has not been specifically stated in the Charter that import or export duties should not be levied nor increased etc. Therefore, it may be argued that a member country is free to levy or increase any protection or revenue duties but as has been pointed out certain other clauses (like Article 13(1), Article 1(4) etc.,) in the Charter may be invoked by the members of the Organization who are adversely affected by India taking action and the result will be we may not be able to follow an independent policy with regard to tariffs.

Again the Charter stands for elimination of quantitative restrictions though there are certain exceptions. In general the quantitative restrictions are permitted only if it is established that they are necessary for the economic development of the country concerned. It means that of any country wants to resort to quantitative restrictions for developing its economy it has to put up an elaborate case before the International Trade Organization. This will be curtailing one's liberty to impose quantitative restrictions. Again with regard to subsidies while production subsidy within reasonable limits is permitted by the Charter it is against export subsidy except under certain conditions. A controversy may arise whether a subsidy given is a production subsidy or an export subsidy. Further in the matter of treatment of foreign products *vis-a-vis* indigenous products it has to be noted that the Charter insists that once an article of foreign origin enters into a country it should be given equal treatment with the indigenous product. This will again curtail our liberty to encourage our indigenous manufacturers. The need to-day is to encourage the use of Indian products and therefore equal treatment given to foreign products may effect our country's indigenous industries. Further members are called upon to take appropriate measures to prevent restrictive business practices. this will go against our country promoting Indian banking and Indian interests of Insurance and Shipping Companies by giving them special assistance by way of reserving to them the work connected with our trade. Considering all these the Committee cannot subscribe to the broad lines of the commercial policy as set out in Chapter IV of the Havana Charter.

Question 94.—If not, would you elaborate your objections to those Articles of the Havana Charter bearing on commercial policy, which you consider

detrimental to the interests of our Industry? Do your objections relate to the short or the long period or to both?

This has been answered above.

Question 95.—Do you anticipate any injurious effects on our trade and industry on account of our acceptance of the obligations of the Charter (1) in the short period, and (ii) in the long run?

From what has been said above it is felt that the acceptance of the obligations implicit in the Havana Charter would have injurious effects on our trade and industry both in the short period and in the long run. The Committee is no doubt aware that there are escape clauses in chapter 3 under which, underdeveloped countries in the interests of their economic development and reconstruction can take action. But even then it is felt that these escape clauses may not be of much avail in the long run in view of the fact that there are other clauses in the Charter which commit the member country to follow the objections of free trade administrated in the Charter. As has been said already we can follow our economic programme of developing our industries only if we have freedom to regulate our fiscal policy and protect our industries. India cannot agree to the doctrine of free trade in the present backward stage of her industrial economy. If India joins the World Trade Organization it is doubtful whether she can pursue an independent fiscal policy best suited to her needs, as that policy may come in conflict with certain provisions of the Havana Charter.

Question 96.—On a careful balancing of pros and cons, do you approve of India's adherence to the Havana Charter and the consequent participation in the proposed International Trade Organisation?

Since the I.T.O., is not concerned with developing the economy of underdeveloped countries and only aims at liberalization of world trade, membership for a country economically situated like us will not be of great advantage. In fact as has been stated before there are some disadvantages in joining the International Trade Organization. If we weigh carefully the advantages and disadvantages it seems to the Committee that the balance of argument seems to be on the side of India not ratifying the Charter. No doubt as a non-member she will not get the indirect benefits of the most-favoured-nation clause, she may not get a treatment as favourable as that which is accorded to a member-country. But then bilateral agreements depend upon the bargaining capacity of the contracting parties.

Question 97.—If not, what would be the broad lines of commercial policy that you would advocate for India; and in particular the fiscal measures that you would recommend for Government's acceptance?

We should follow such a line of commercial policy that would facilitate the quick and rapid industrialization of our country. We should be able to increase employment by fully utilising our natural resources. Commercial policy, therefore, should be considered as an integral part of the economic policy and it should be drawn up in accordance with our requirements which as has been stated is to increase our national wealth by utilising our man power and natural resources. We should not depend upon foreign trade to a large extent for running our economy. As far as possible our internal resources must be developed to meet our country's needs so that our internal economy may be affected only to the minimum possible by world events as in these days are cannot avoid entirely the effect of world events. We have to develop our trade, no doubt, with our neighbours.

Question 98.—If you agree that India should adhere to the Charter and join the International Trade Organization have you any views to express on (a) the

structure and function of the I.T.O., (b) the procedure laid down for its working, and (c) India's position and status in the I.T.O.?

In view of the Committee's opinion that it will not be to the advantage of India to ratify the Charter, the answer to this question does not arise.

Question 99.—Do you agree with the main principles underlying the General Agreement on Tariffs and Trade as laid down in Part I and Part II of the Agreement? If not, please detail your objections under specific heads.

The general provisions of General Agreement on tariffs and trade were accepted by the contracting parties of which India was one and it contained provisions similar to that embodies to the Havana Charter. Our objections to the various provisions of the Havana Charter are also relevant to the General Agreement on Tariffs and Trade.

Question 100.—Have you any comments to make on—

(a) the concessions granted by us to other countries in respect of imports into this country; and (b) the concession received by us in respect of our export abroad.

From the perusal of the commodities in respect of which India has given concessions the Committee note that these items do not, for the time being, compete with our manufacturers and as such there can be no objection to grant concessions in respect of these items. With regard to the concessions received by us in respect of our exports abroad there are two items *viz.*, raw-jute and cotton where a vital change has taken place since the partition of the country. We have now become a net importer of these commodities and as such we are not in a position to avail of the concessions obtained.

Question 101.—On a careful examination of these reciprocal concessions do you consider that the provisions of the General Agreement on Tariffs and Trade have been on balance, in the interests of India? If not, to what extent do you think these provisions have been at fault from India's point of view?

In view of the fact that most of these items on which concessions have been granted and obtained are controlled by import and export regulations, it is not possible to assess their benefits to us. Further, the General Agreement has been in operation for only just a year. Therefore, any assessment of gains or loss is now not possible. It may be that on a balance India has not been adversely affected on account of these reciprocal concessions. It is so because of the articles selected for giving and obtaining concessions.

Question 102.—Have you any comments to make on the actual working of the tariff concessions granted by India to other countries since July 1948?

Except what has been stated in respect to the above question the Committee have no further information on the subject.

Question 103.—Have you any reasons to think that the provisions of the General Agreement on Tariffs and Trade are not being worked by other contracting countries in the spirit in which they were conceived? If so, please illustrate your reply with examples drawn from your knowledge or experience.

The Committee have no information on this point.

Question 104.—Other things being equal would you or would you not favour the continuance of tariff concessions granted by India to other countries beyond January 1, 1951?

As the Committee is not for the ratification of the Havana Charter the question of continuance of the tariff concessions granted by India to other countries beyond January 1, 1951, does not arise.

While on the subject the Committee would like to explain the reasons for having expressed against our acceptance of membership of the International Trade Organization. Today's India's need is for a speedy industrialisation of her economy so as to raise our standard of living. This can be done only by our pursuing a vigorous economic policy best suited to our needs. Most of the advanced industrial nations today owe their present position partly to historical accidence no doubt but mostly to their protectionists' policy which they have followed all these years. Therefore, we cannot subscribe to India agreeing to liberalising international trade by not adopting a protective policy etc. By subscribing to the Charter's principles she will have to surrender her rights to pursue policies which will be best suited to her economy. In spite of the many escape clauses contained in chapter 3 we may not be able to follow an independent line of our own in view of the other articles of the Chapter, providing for liberalization of international trade.

The Hindustan Chamber of Commerce, Madras.

SECTION A(1)

Question No. 1.—Since the Fiscal Commission reported in 1922 various changes have occurred in the economic background of the country. The changes in the economic background call for a fresh approach to the fiscal policy and for a reorientation of the same. The main factors that have been responsible for the alteration in the economic background of the country are the World War No. II, the political emancipation of the country and the top of all, the partition of the country.

Though, the war, in a measure gave some impetus to certain of our industries, the industrial development of the country had not been commensurate with the natural resources of the country or still falls short of its needs. The war exposed the great defects in our industrial and economic structure of the country. With the cutting off the supplies from the continent on account of the war, India was placed in the difficult position in respect of her supplies of capital machinery and other replacements. The lack of other basic and other engineering industries accentuated the difficulties of even established industries like textiles, sugar, paper, iron and steel etc.

The policy of protection pursued by Government helped very little in the development of the industries. The country's economy remained mainly agricultural.

The World War No. II had made a significant change in the composition and direction and pattern of our foreign trade. Further, the partition of the country in 1947 has also vastly affected the economy of the country in respect of her agricultural and industrial resources.

Thus it has now become absolutely necessary for re-viewing our fiscal policy in the context of the changes that have now occurred.

Question No. 2.—The industrial development that has occurred in the recent years have in no measure altered the agricultural economy of the country. Agricultural production has not kept pace with the increase in the country's population with the result we find today that India has to depend for her food requirements upon foreign countries. Agriculture is still in the primitive stage. Further there has been progressive fragmentation and sub-division of holdings. In the matter of production of food there has been a marked deterioration in the situation. In spite of the Grow-more-food campaign, food-production we may say has remained almost stationary since 1943.

The deficit in food production has compelled the country to restrict the

growing of other commercial crops and divert those acreage in which commercial crops were raised to the production of food crops. Thus the country's agricultural economy is still in a very backward state. In respect of the international trade in our agricultural commodities the war and partition of the country have brought about a change in the pattern of our trade. Before war, India's predominant exports were agricultural commodities. Now the trend has been reversed and India is now exporting more of semi-manufactured or processed or manufactured goods. On account of the partition, India which was once exporting raw cotton and jute has now become the largest importer of these two commodities from Pakistan.

Question No. 3.—The changes stated above in our agricultural situation will in a large measure influence the industrial progress of the country. The need to make the country self-sufficient in food will naturally affect the further expansion of production of other commercial crops and industrial raw materials. The interest of the country requires that equal attention and importance should be paid to the task of making the country self-sufficient in food, and the task of securing the essential supplies of raw materials for our industries and keeping a high level of exports of those staple commodities. The heavy imports of food from abroad, are a heavy drain on our valuable foreign exchange resources. The foreign exchange which we save by attaining self-sufficiency in food, and those which we may earn by maintaining a high level of export of those staple commodities will greatly help the country in purchasing essential capital machinery etc. which will advance the industrialisation of the country.

Question No. 4.—The basic improvements in our agriculture that are urgently necessary for any policy of intensifying industrialisation are the attainment of self-sufficiency in our food production which would save us a great deal of foreign exchange and the development of production of other crops that command an export market and earn us foreign exchange. The agriculturists should be educated and given all help for adopting improved methods to increase the average yield per acre. Reclamation of waste lands and intensive cultivation of existing acreage should be taken immediately on hand. This reclaimed lands can be utilised for the growing of commercial crops.

Questions No. 5 *and* 6.—The policy of discriminating protection recommended by the Fiscal Commission proved ineffective, tardy, and hardly adequate to meet the requirements of an undeveloped country like India. Though it is true that a few industries like iron and steel, cotton textiles were granted protection the development had been very slow, hardly sufficient for country like India. The fact that only eight industries received protection during the course of 20 years and were developed is sufficient proof of the inadequacy and unsuitability and halting nature of this policy. It should be observed that patriotism was more responsible for the development of industries than the policy of protection.

During the World War No. II even those established industries were put to great difficulties in the matter of essential supplies of raw materials and machinery. Absence of chemical and other metallurgical subsidiary industries and the country's dependence on such supplies such as the dyes, chemicals etc. and the absence of capital goods industries proved a great handicap even to those established industries. Though the Commission of 1922 recommended protection to industries of national importance, no basic or key industry was developed during the period.

Question No. 7.—In the full and orderly development of India cottage industries have a big part to play. Cottage, medium sized, and small scale industries have to be developed side by side and their development coordinated with large scale industries. Large scale industries will not alone achieve

full employment to the millions of Indians. For achieving full employment these industries have to be encouraged and developed.

Agriculture in India is not always a whole time occupation. The agriculturist in order to supplement his income derived from the land has to pursue some other subsidiary occupation. The development of such industries as smithy, carpentary, weaving, dairy and poultry farming etc. will doubtless add to the income of the agriculturists. Further promotion of cottage industries and small scale industries will also reduce the pressure on land.

As already observed small scale and cottage industries should be developed side by side with large scale industry.

Question No. 8.—As already observed small scale and cottage industries have a significant roll to play in the economic development of our country in the long run and under the present situation.

SECTION A(2)

Question No. 9 (a).—Sericulture, poultry farming, dairy farming, biscuit making.

Question No. 9 (b).—Motor repairing, automobile repairs, bobbin making, tiles and bricks manufactures, watch making, hosiery and foundry.

Question No. 9 (c).—Blanket-making, shoe-making, tiles and bricks, confectionary, button making, slates.

Question No. 10.—Many of our products of the cottage industries can command an export market. In this respect mention may be made of our artwares, toys, handloom textiles, carpets, brass metalwares, etc.

Question No. 12.—The cottage and small scale industries have been suffering for want of adequate supplies of raw materials, technical skill, finance and absence of marketing facilities. It may be observed that lack of state assistance brought about the decadance of cottage industries in India. For developing these industries the state should give the artisans better technical educational facilities, supply of capital tools, cheap power and raw materials, new patterns and designs and at the top of all finance. Today, there is a complete lack of marketing facilities for these products. Further no publicity is given to these products in the foreign markets. We would therefore suggest that the Government should organise demonstrations, open museums in foreign markets for pushing up these products.

Question No. 13.—It is necessary to investigate the possibilities for the export of such of our cottage industries in foreign markets. Whenever India enters into trade agreements with foreign countries, the Government should see that products of cottage industries are also included in the list of commodities. The Government should also take appropriate measures to protect cottage industries from foreign competition.

SECTION B

Questions No. 14 *to* 16.—The policy of discriminating protection laid down by the Fiscal Commission of 1922 proved disappointing, hardly adequate to meet the requirement for developing an undeveloped country like India. The Commission's three conditions which have to be satisfied by an industry seeking protection were too rigid and stringent. Further the undue insistance upon these conditions together with their ungenerous interpretation lead to the refusal of protection to several industries. Another factor responsible for the slow pace of industrialisation was the infant industry argument recommended by

the Commission and adopted by the Government for the grant of protection. The grant of protection on infant industry basis may be more appropriate for industrially advanced countries, but not for India. Further the policy was based on a narrow and incorrect view of the development of industries inasmuch as the Tariff Board worked on the basis that protection can only be granted for those lines of industry which were only established in India and not in respect of those which may mutually be interdependent and which are capable of and must be developed. This policy resulted in neglect of the development of allied branches of the same industry. Further, no protection was granted to new industries.

The protection granted was only of a safeguarding nature, and gave nothing better than a perfunctory assistance. It took no interest in the further development of those industries. During the period between the two wars when there was dumping and other forms of unfair competition the Indian industries were in a helpless state. In short, it may be stated that policy of discriminating protection protected those industries in a limited manner in the matter of their preservation but did nothing in their development. Discriminating protection lead to the isolated consideration of each industry without reference to the overall industrialisation of the country. Thus it hampered development and made it haphazard.

Regarding the machinery, procedure and formalities and the implementation of the policy of discriminating protection several difficulties were observed in their operation. The Government were appointing only *ad hoc* Tariff Boards. Consequently there was no consistency or continuity of policy. Again the functions and power of the Tariff Board were not specifically defined thus giving scope for conflict in the interpretation of principles between the Government and the Board. The procedure that the applicant industry for protection should first submit the application to Commerce Department and then that Department would forward the same to the Tariff Board for consideration only if they were satisfied that there is a *prima facie* case, proved very defective. This procedure entailed much delay and valuable loss of time. In conclusion it is to be stated that three conditions which the industry has to satisfy for obtaining protection have to be dispensed with, and a more comprehensive and forward policy without restrictive conditions which hamper the growth of industries which would promote industrial expansion has to be enunciated.

Question No. 17.—The supplementary measures recommended by the Fiscal Commission related to technical education, railways rates, and measures against dumping. But none of these measures were seriously taken note of by the Government and never implemented. It is the view of our Committee that these above measures should also be implemented and that specific measures should be taken by the Government for safeguarding our industries against dumping.

Question No. 18.—The Tariff of Government of India has been primarily a revenue tariff, and the Government were placing increasing reliance on the revenue tariff for their budgetary requirements. The Chamber feels that while customs duties may be continued to provide substantial part of the Government revenue, they should not be levied purely on revenue considerations as against fiscal and industrial needs of the country. In short revenue considerations of the Government should not be allowed to override fiscal decisions. In the framing of the future fiscal policy emphasis should be laid more on economic interests of the country than on pure revenue considerations of the Government.

Question No. 19.—The changes made in the discriminating protection in 1945 of course mark a change in the outlook. The first condition may not present much difficulty under ordinary circumstances. But a strict interpretation of the same would create difficulties. As regards condition No. 2(a) it

has to be observed in view of the uncertain conditions the estimate of the Tariff Board in this connection will only be purely a guess work. It is not possible for the Board to assess what the competitive capacity of the particular industry will be in the future as it depends upon other conditions. The condition 2(b) is a definite improvement. A wider interpretation of the term national interest has to be made and it should not be confined to those industries which are of importance from the strategic or defence point of view.

SECTION C

Question Nos. 28 and 29.—The revenue tariff of the past have not appreciably affected the general growth of development of our industries or of the export or import trade. The revenue tariff though they formed an important item of income to the Government failed to have any direct or indirect influence on the industries and the expansion of our foreign trade.

SECTION D

Question No. 31.—In the periods during 1939-45 and 1946 and 1949 a striking change has occurred in the composition and direction of our foreign trade. The traditional pattern of our trade has been reversed. The World War No. II and partition of the country in 1947 were the chief factors responsible for these changes in the international trade. The share of our exports of manufactures in comparison to agricultural commodities increased. On the import side India was importing less of manufactured goods. In short, it may be said in this period that India exported more of manufactured goods than of agricultural commodities and imported less of finished goods, thus altering the pre-war pattern of trade. One disturbing factor noticed in the foreign trade during 1946—49 is the continued adverse balance that the country is having.

Question No. 32.—On account of the emergency conditions created by war India had to resort to various controls on her imports and exports. Our import policy has been mainly governed by the availability of foreign exchange and by the need for conservation of the same. The working of the control system has adversely affected our external trade. The import and export policies have not been co-ordinated to the general economic policy with the result that neither it has helped the industrialisation of the country nor the foreign trade.

Question No. 34.—It is not possible in the present day conditions to assess the relative importance of fiscal and non-fiscal measures. The needs of the present day economy require that both fiscal and non-fiscal measures have to be combined judiciously, to protect and develop our industries.

Question No. 35.—As stated previously the traditional pattern of our trade has undergone a change. With the increasing development of our country it is necessary to maintain this changed pattern in the composition of our trade. An appropriate tariff policy can promote the expansion of external trade on the above lines by facilitating imports of essential raw materials and capital goods and machinery so vital for the industrialisation of our country.

Question No. 36.—The objectives of the tariff policy should be to promote full development of industries and agriculture and to expand and protect the war-time industries and other numerous industries which have risen and to promote and help these industries whose production can be exported to foreign markets and earn foreign exchange.

Question No. 37.—We agree with the view that the best fiscal policy suited to India is protection.

Question No. 38.—As indicated previously these three restrictive formulae for the grant of protection have to be scraped. Even if raw materials for an industry are not available in this country, and have to be procured elsewhere, if there is sufficient scope, for the development of those industries they have to be granted protection. The primary condition in granting protection to an industry ought to be whether the industry is important to the national interest. The burden of protection should not fall unduly heavy on the community.

Question No. 40.—Yes.

Question No. 41.—The measures that are commonly adopted for protecting industry are (1) protective import duty, (2) bounty or subsidy and quantitative restrictions of imports.

Tariffs are by far the most widely used measures for protection. Further they also form an important source of revenue to the Government. Subsidies or bounties have come to play an important part in the expansion of industries. Bounties may take the form of direct financial assistance or may be in the form of remission of taxes and other concession in freight etc. Subsidies are also granted for encouraging exports. While tariffs are a source of revenue to Government, subsidies have to come out of the revenues of Government and to that extent mean a depletion of the revenue of the Government. Payment of bounties by a country like India whose sources of Government revenue are not large, may not be possible to any large extent. So, whenever, the Tariff Board considers that production bounty is the best method to develop an industry. It should be granted concession in the shape of exemption or reduction of import duty, freight has also been granted. Quantitative restrictions are the most potent instrument for protecting an industry against the onslaught of foreign competition. Quantitative restrictions regulate the supply of foreign products and assure a market for the home product. In conclusion, it should be left to the Tariff Board to determine which are the suitable methods, for protecting an industry.

Question No. 43.—As a general proposition export duties are not desirable However, they may be resorted to in exceptional circumstances for purposes of protection of home industries. Export control may be levied in respect of such of the consumer goods as are in short supply. In regard to domestic supply of raw materials for industries it is necessary to ban exports whenever they are in short supply.

Question No. 44.—The established industry may be given subsidies, tax reliefs, and freight reliefs to maintain its exports.

Question No. 51.—The fiscal policy should be comprehensive in scope and should be integrated with the larger economic policy of the country. Its object should be to assist and encourage a rapid industrialisation of the country to the fullest extent possible. The fiscal policy should in short by its appropriate tariff measures and other methods of direct assistance, protect our industries from unfair competition and assist their development and promote a balanced and comprehensive development. Further it should be its aim to expand our exports and imports along the altered course of trade noticed during the war period and to diversify the same and to make it flow into new markets.

Question No. 52.—The Chamber is strongly of the view that it is not necessary for the Government or quasi-Government organisations to participate in the foreign trade either in the short period or in the long run for achieving the objectives of the Fiscal Policy. Initiative and efficiency which are very essential for the progress of trade will be lacking in state trade. Further want of necessary experience and skill on the part of state trading organisations will make impossible the realisation of the main objectives of the Fiscal Policy.

SECTION H

Question Nos. 72—77.—We consider that the existing administrative organisation will be too inadequate to carry out a comprehensive policy as regards fiscal and non-fiscal measures. The fiscal and commercial and industrial aspects of every proposal will demand a most careful scrutiny and will involve elaborate technical enquiries. For performing this task of such a great magnitude a statutory and permanent Tariff Board will only be a competent body. So the scope and functions of the present Tariff Board have to be enlarged to a great extent, its personnel strengthened and suitable organisational changes made for the purpose.

As regards the suggestion of setting up one comprehensive organisation partaking of the nature of trade and industrial planning commission, we would suggest that while the task of planning may be entrusted to such a commission, if and when a body is deemed necessary the implementation of the fiscal policy may be left to the Tariff Board. As organisation composing of different sections relating to technical and specialised investigations in respect of industry and trade and commerce, accounts and statistics should be attached to the Tariff Board to assist them in their enquiries.

Question No. 78.—We suggest that the Tariff Board should be a permanent statutory body. The statutory position for the Tariff Board will add to its prestige and standing. Further a permanent body will also ensure permanency and continuity of policy. Regarding the composition and qualifications of members of the Board we are of opinion that the members should be men of ability, integrity and impartiality, other desirable qualifications being knowledge of economics, and practical acquaintance with the business affairs. Atleast two thirds of members should be from public life.

Question No. 79.—The Tariff Board should have sufficiently wide powers so as to enable it to undertake investigation on its own account and even review the progress of protection of industries from time to time. The Tariff Board should amongst others have the following functions:—

(1) To investigate the claims for protection of industries and to recommend the necessary protection and besides subsidies, bounties, quantitative restrictions and also duration of these measures.

(2) To recommend the measures necessary for protecting industries from dumping and other forms of unfair competition.

(3) To suggest measures for encouraging the establishment or development of new industries and other ancillary and subsidiary lines of production.

(4) To enquire into the effect of protective duties and other measures of assistance

(5) To recommend ways and means for securing supplies of raw materials and technical knowledge, personnel, etc.

(6) To watch the progress of the industries which have obtained protection.

(7) To undertake studies of *ad valorem* and specific duties and Tariff valuations.

(8) To investigate the working of fiscal policy and generally of industries.

(9) To consider trade and other agreements and their effect on Indian industries and trade.

(10) To watch the movement of foreign capital.

Question No. 80.—While the functions that have now been entrusted to the Tariff Board may be deemed to be sufficient for the limited purposes for which they are constituted they do not cover the range of functions which a statutorily permanent Tariff Board may have to perform for the implementation of the country's fiscal policy. The changes that have to be made in the functions of the Tariff Board have been indicated in the replies to the previous questions.

Question Nos. 82 *and* 83.—We are of the view that the present procedure must be liberalised. The Tariff Board besides considering the applications for protection from industries must have also the necessary powers to enquire into such industries which are of importance to the national economy and deserve to be developed.

Question Nos. 84, 85 *and* 86.—The procedure that an industry claiming protection should forward its application first to the Government is very defective. It has only caused vexatious delay. Therefore it is our view that the Tariff Board should be authorised to receive applications for protection direct from industries and to initiate enquiries *suo motto*. This procedure will eliminate much of the delay that has hitherto been experienced by the industries.

Question No. 87.—Inasmuch as the Tariff Board makes recommendations only after due elaborate and extensive enquiries its recommendations should normally be accepted by the Government.

Question No. 88.—The Tariff Board must be placed on a statutory basis. The statute should lay down the composition and function of the Tariff Board. In the interest of flexibility and to enable modifications being made to suit the changing conditions it is desirable not to include general principles governing tariff policy in the statute constituting the Tariff Board.

The Indian Chamber of Commerce, Tuticorin.

PART I

SECTION A (1)

Question 1.—Various factors have affected the economic structure of the country since the Fiscal Commission reported in 1922 necessitating a fundamental change in the approach to the problems with which the present Commission is concerned. Till the attainment of Independence the political subjection of the country prevented the pursuance of any policy in national interests towards economic development. During the period, our main industries such as cotton textiles, jute manufactures, paper, sugar, paints, cement, matches, etc. developed. The policy hitherto followed by the alien Government sacrificing National interests has to be revised in many instances to suit the requirements of the country. The partition of the country as Pakistan and Indian Dominion has also much to do with the economic development. The Government has to consider all these factors, and set up fresh targets for industrial and agricultural development and pave the way for immediate industrialisation with adequate protective measures for the industries faced with foreign competition.

Question 2.—The industrial development has not altered much the position of agriculture in the economy of the country. The restriction in the acreage under commercial crops has resulted in the fall in the acreage of cotton and jute and incidentally the production of cotton and jute. Oilseeds too did share the same fate.

Question 3.—Until we attain self-sufficiency in food, acreage and production

of agricultural products used as raw materials for industrial production will continue to be restricted. The heavy cost of imports of food from foreign countries is a drain on our resources which could be better utilised by importing equipment for the development of our industries. Hence, a well-laid-out plan would be necessary regarding crop production satisfying the requirements of internal consumption as well as industrial uses.

Question 4.—The average yield per acre of all agricultural products should be improved by applying latest methods of mechanical ploughing, potential manures, etc. Waste lands should be brought under the plough to raise food or commercial crops. Farmers should be helped by way of loans and other facilities. The living standards of the agriculturist should be raised. The country's rich and valuable mineral resources should be exploited on a scientific and well-chalked out basis as in most advanced countries.

Question 5.—It cannot be said that the country has attained any satisfactory progress in industrial development since the Indian Fiscal Commission reported in 1922, as the protection offered was not fully adequate to meet the requirements of a country backward in industrial development and always subject to exploitation by its erstwhile rulers. The few industries which had developed may be counted on one's finger's ends. They are iron and steel, cotton textiles, sugar, paper, magnesium chloride, etc.

Question 6.—Many of our industries have just begun to raise their heads after life long exploitation and the effective support of the Government in all respect is necessary for them to attain the level of efficiency so as to be proof against competition.

(a) The following industries ought to be promoted:—Iron & steel, shipbuilding, electrical goods, heavy chemical industries, coal, cement automobiles, etc.

Besides, consumers' goods industries, such as cotton textiles, sugar, matches, bicycles, toilets, etc. also should be promoted.

(b) Government should facilitate the expansion of the production capacity of the aforesaid industries by placing sufficient raw materials at the disposal of the industries and also secure enough capital machinery required by them from foreign countries.

(c) and (d) No remarks to offer.

(e) Foreign capital should be invited on agreed terms, and all the pre-requisited for the easy flow thereof into our country should be arranged by the Government.

(f) Government should help those of the industries requiring supply of foreign raw materials, by securing imports thereof at favourable rates. Provided production is stepped up, coal the chief item of fuel in the industries can be made to cope with the requirements. Transport difficulties from collieries to the industrial centres should be eliminated by Government action. The various River projects absorbing several crores of rupees, now under construction can be expected to supply the required power.

(g) Government have already realised the need for competent technical personnel as an important pre-requisite of rapid industrialisation and they are establishing higher technical institutions themselves and through the Agency of big industrialists. It is of urgent necessity to send as many students as possible to Foreign countries for post-graduate and research work and for practical knowledge.

Question 7.—(a) Small-scale and cottage industries though flourished at one time fell into evil days and were not able to withstand the competition of cheap imported factory products from the U.K. All the while they form an essential part of our rural economy.

(b) The agriculturist has for his subsidiary occupation hand-spinning, weaving, flour grinding, etc. So agriculture is not in any way affected by the promotion of these small-scale and cottage industries.

Question 8.—Small-scale and cottage industries have a significant role to play in the economic development of our country. Co-operation between these and large-scale industries will be mutually beneficial. Those of the cottage industries' production which do not compete with the productions of the large-scale could be made to serve the needs of the local areas.

SECTION A (II)

Question 9.—Small-scale and cottage industries to be developed as subsidiary to agriculture: Sheep breeding, poultry farming, dairy farming, sericulture, fruit cultivation, gardening, hand pounding of rice, flour, etc., palm jaggery, cane jaggery making, cotton ginning, spinning, dhall milling, etc., korai mats, palm leaf basket making, etc.

(b) as supplementary to large-scale industries: Machine-made brass, copper and aluminium ware, tiles and bricks, hosiery, manufacture of soap, aerated waters, drinks, ice, etc., dyeing and bleaching, dairy products, tanneries, etc.

(c) The following can be developed as independent units of production: Oil pressing by country chekkus, shoe and chappal making, carpentary and country cart manufacture, pottery, tiles and bricks, beedi manufacture, fish-curing, book-binding, confectionery, manufactures from tobacco such as snuff, chewing tobacco, etc., button manufacture, copper and brass ware manufacture.

Question 10.—The cottage industries specially suited for export purposes are detailed here under: Carved and inlaid woodwork artwares including wooden toys, brass artwares, ivory carvings, gold and silver embroidery goods, cotton and silk embroidery lac and lac products, coir and coir products, korai mats serving as beaspreads.

Question 11.—Protection to large-scale industries has not, to the Chamber's knowledge affected small-scale and cottage industries. Should supply of raw material required for the latter be short Government should come to the rescue forthwith.

Question 12.—The handicaps from which small-scale and cottage industries suffer are many. Absence of money facilities, marketing facilities, want of raw materials, heavy taxation, high transport charges, etc. The State could step in at every stage and either from its funds or on co-operative basis could afford the necessary money facilities to the needy among the industries. They could easily provide raw materials, technical skill, organisations for marketing publicity in likely centres of absorption of these products in foreign countries.

Question 13.—Now that India has attained Independence, she is free to introduce her products in foreign countries and a systematic attempt should be made in this direction by our Government in all foreign countries. Those countries entering into Trade Agreement with India should be persuaded to absorb as much our cottage industries' products as possible, which itself will give a good stimulus to the development of our cottage and small-scale industries.

Questions 14 and 15.—It cannot be said that the Policy recommended by the Commission was fully implemented between 1923—1939. The policy of

Protection was slow and ineffective. During this fairly long period only 8 industries got established with the help of protection. Even in the case of protection to industries it cannot be said to be as all-embracing and with comprehensive outlook. Example will be found in the recommendation for protection only for selected products within particular industries as in the case of steel and paper. The recommendation of the Commission that tariff protection should be granted to new industries definitely ruled out the case of promising industries which could have otherwise developed with the hope of protection. The three conditions laid down by the Commission for being satisfied before any industry applied for protection were rather impossible of compliance in many cases.

Question 16.—We do not agree with the specific conditions laid down by the Commission that normally protection should be accorded to an industry only if the conditions referred to in Question 14 are satisfied.

Question 17.—The "supplementary measures" for the protection of and assistance to industries as recommended by the Commission were no doubt steps in the right direction. but the method of implementation was not satisfactory.

Question 18.—(a) (b) In the past the British Government, in the application of the principle of protection, paid rather undue regard for revenue consideration as against the fiscal needs of the country. Free India can re-orientate the policy altogether to suit the present day needs and in the best interests of the industries concerned.

Question 19.—The changes set out in paragraph 4 of the note made in the principle of discriminating protection 1945. no doubt constitute a definite improvement on the policy hitherto adopted and to that extent the functioning of the Tariff Board 1945 has been in the best interests of the industries.

Question 20.—In the opinion of the Chamber, the Tariff Board has done everything possible to implement the policy. In deserving cases, in addition to the protective tariff, they have proposed the imposition of quantitative limits.

SECTION C.—*Review of the effects of past Tariff policy.*

No remarks to offer.

Questions 31 *and* 32.—No remarks to offer.

Question 33.—The fundamental premises on which the recommendations of the Indian Fiscal Commission 1921-22 based are still there, as the country has to go a long way towards industrial development and her resources too have yet to be properly gauged and exploited to the maximum extent, in order that the country be enriched, Government revenues increased and the public be ultimately benefited by the nation building activities of the Government.

Question 34.—Under present day conditions of our economy and the undeveloped stage of our various industries no broad line can be drawn between fiscal and non-fiscal measures. It is much advisable to pay equal importance to both of them and thus secure adequate protection for our industries and incidentally full development as well.

Question 35.—An appropriate tariff policy will no doubt accelerate the expansion of our foreign trade, and facilitate imports of necessary capital goods, machinery and essential raw materials and pave the way for industrial development of our country.

Question No. 36.—The objectives of Tariff policy in the short period should be to increase production to the maximum extent to protect and develop the industries which had come into existence and to develop and assist those industries commanding export market. These objectives if carried out judiciously will relieve the present heavy financial strain imposed on the country by abnormal imports of foodstuffs and capital goods and machinery.

Question No. 37.—We agree with the view that there should be an unqualified pronouncement that the fiscal policy best suited for India is protection.

Question No. 38.—Regarding the conditions for regulating the grant of protection or assistance, it must first be seen whether the industry is important from the point of view of national interest and is really in need of protection; then it should be gauged whether such industry if granted protection would command a good home market or Foreign market. The conditions should be liberally administered and should not be felt irksome or unduly stringent by the industries applying for protection.

Question No. 39.—In the application of the formula or principles of protection, the industries may be classified as follows:—

(a) Defence industries which out to play an important part in Free India.

(b) Basic or key industries for expansion of production agricultural and industrial.

(c) Industries, the output of which could be exported to Foreign countries in order to consolidate our Foreign exchange position.

(d) Consumer goods industries catering for the needs of the public here and also overseas should there be exportable surplus.

Question No. 40.—We agree with the view that the grant of protection should not be confined to infant industries. It should be considered if necessary even before the establishment of an industry or when proposals for its establishment are under consideration. It is only the "infant industry" argument recommended by the Commission previously and countenanced by the erstwhile alien Government which retarded the pace of industrialisation of the country.

Question No. 41.—It does not matter much through whichever method adequate protection is secured by the industries applying for assistance. It may be by imposition of protective import duty or by grant of bounty or subsidy or by quantitative restrictions of imports. A judicious erection of tariff walls with quantitative restrictions can overcome unfair competition and dumping.

Question No. 44.—In order that established industry may maintain its exports, any of the following may be adopted (1) subsidies, (2) tax relief and (3) freight relief. Profits of export trade may be taxed at a lower rate than the profits of home trade. National shipping should be encouraged and our external trade should be through our own steamers as far as possible, so that freight facilities could be afforded as and when necessary.

Question Nos. 52 *and* 53.—This Chamber is not in favour of Government or Quasi-Government organisations to participate in foreign trade in the short period or in the long run.

Question Nos. 54 *and* 55.—The non-Fiscal measures that Government should now adopt in furtherance of any approved fiscal policy both in the short period and in the long period are: supply of essential raw materials for the industry

plant and machinery, cheap fuel and power, cheap, adequate and quick transport for the movement of raw and semi-processed materials and their finished products, technical personnel of different grades, supply of technical information about industrial methods and processes and supply of industrial finance and all the requisite facilities for the industrial development. Industrial raw materials in short supply could be arranged to be supplied by allowing unrestricted imports of the same. Government should assist in the procurement of capital goods required by industries by effecting purchases in the U.K. and U.S.A. of their own accord, or through the medium of our Trade Commissioners. The recommendations of the Coalfields Committee should be implemented in right earnest and Government should take immediate steps to step up production and improve the transport of coal from the production centres to the various industrial points of absorption.

The establishment of the Industrial Finance Corporation and that Act itself are steps taken in the right direction and ample power is given to see that the industries and business do not suffer for want of finance at any stage.

Question Nos. 56 *and* 57.—For providing the facilities enumerated in Question No. 55, close co-operation between the industry and trade and Government is essential. For attaining this object we would suggest the formation of a Central Organisation in which the representatives of the trade and commerce and industry and the representatives of the Commerce and Industries Department will take part. This Body will serve as the important link between the industries and the Government. The Government must review the composition of this Body from time to time in the light of experience gained and try to get in the best brains in the country in the field of commerce, industry, etc.

SECTION G

Question No. 66.—(a) The industries receiving protection or assistance from Government indeed owe a special obligation to the rest of the community.

(b) (i) Government interference with the price policy or price structure of an industry is not desirable under normal circumstances, unless undue profiteering is suspected.

(ii) The existing Indian Factories Act 1934 and other Central and Provincial legislative enactments provide adequate safeguards for the interests of labour in protected industries and as such no special legislation is necessary.

(v) My Chamber feels that protected industries should discharge their obligation to Government by training apprentices and Government scholars and stipendaries up to their capacity.

Question No. 67.—There is no harm in the combination of the different units in a protected or assisted industry, as thereby internal competition will be minimised and the industry could withstand Foreign competition, as the resources of these units could be pooled in times of necessity.

Question No. 68.—It is better to leave the matter to the Tariff Board to decide the conditions regarding the financial structure of the industries receiving protection.

Question No. 69.—The Indian Standards Institution which has started functioning will amply serve the purpose and as such as special organisation or institution need be set up at present.

Question No. 70.—The orbligations need not be embodied in the relevant statutes dealing with protected or assisted industries. The same may be left

to be prescribed by the tariff-making machinery on an *ad hoc* basis, in each individual case of an industry asking for protection or assistance.

Question No. 71.—A special wing of the tariff-making machinery itself may be entrusted with the responsibility of seeing that the obligations of protected and assisted industries are duly discharged.

SECTION H

Organisation, methods and procedure

Question No 72.—The existing administrative organisations will not be adequate to deal with the problems of implementation that may arise out of Government's acceptance of a comprehensive policy as regards (i) fiscal measures and (ii) non-fiscal measures.

Question Nos. 73 *to* 78.—As regards the suggestion that a comprehensive organisation of the nature of a Trade and Industrial Planning Commission subdivided into suitable branches to deal with planning and execution of various measures, relating to tariffs and other fiscal and non-fiscal measures, be set up, my Chamber is of the view that the function of planning alone may be entrusted to the afore-said Commission when such a body is found necessary. The implementation of the fiscal policy should only be entrusted with statutory Tariff Board. It would no doubt be advantageous if a series of specialised organisations dealing with particular subjects are also brought about. But all should function only under the statutory Tariff Board.

The Tariff Board should be a permanent and statutory body with well-defined functions and powers and consisting of men of high ability, integrity and impartiality. There will be consistency and continuity of policy only if a permanent Board is brought into being.

Question No. 79.—The functions of the proposed permanent Board should embody the recommendations of the India Fiscal Commission 1922 and also the functions assigned to the reconstituted Tariff Boards of 1945 and 1947 as they are improvements in the light of experienced gained over a long period.

Question No. 80.—The implementation of our country's long-term fiscal policy could be expected only through a permanent Tariff Board.

Question No. 81.—My chamber would suggest for instituting a technical organisation to assist the Board in its work.

Question Nos. 82 *and* 83.—The Board must have powers independently to enquire into the cases of such industries contributing to the well-being of the country and deserve to be protected or encouraged.

Question Nos. 84 *and* 85.—Application for protection may advantageously be made the permanent Board alone instead of the round-about procedure of submission to Government for its prior approval. Government should make it a point to notify their decisions on the Board's recommendation within a minimum period, as every aspect of the question would have been thoroughly discussed by the Board itself—which would be a Permanent Body of standing and responsibility.

Question No. 86.—An improvement should be made on the present procedure of the application for protection passing through various departments of Government, as such a course causes vexatious delay in investigation and report. Applications should be allowed to be entertained by the Board directly.

Question No. 87.—Government should normally accept and implement the recommendations of the Tariff Board, unless they have specific and strong reasons to overrule the same in the interests of the country.

Question No. 88.—(a) The Tariff Board must be placed on a statutory basis.

(b) As the present fiscal policy is liable to modification according to the conditions prevailing from time to time, it is not deemed advisable or expedient to embody the general principles governing tariff policy, the general procedure to be followed in tariff enquiries and the manner of enforcement of the obligations of protected industries, in the statute itself. The possible risk of rigidity in procedure and administration could be minimised by the absence of statutory sanction for them.

Andhra Chamber of Commerce, Madras—1.

India is predominantly an agricultural country and in spite of the vast resources available industries are not well developed. Owing to excessive pressure on land the income of the people from agriculture is very low and industrial employment is not considerable. The need for diversion of surplus labour from land to industry has been realised quite long ago but the British Government was not much interested in the industrial development of India. The Fiscal Commission of 1922 recommended the policy of discriminating protection to promote industrial development. But the policy proved ineffective, halting and meagre for the purpose of developing India into a big industrial nation to take her rightful place among the comity of the nations. Even though more than two and half decades passed since the policy of discriminating protection was laid down India had not developed any basic industries and the pace of progress in respect of consumer goods industries had not been as rapid as it ought to be and could be, had the administrative machinery of the country been in the hands of a national government. The fact remains that India is still an agricultural country and more than 70 per cent. of the population depend on agriculture for earning their livelihood. It behoves the Government of the country to take stock of the situation and formulate a bold fiscal policy for an all round industrial development.

India achieved freedom in August, 1947 and the rule of the foreign government came to a close. It marked the beginning of a new era in the political history of the country. It was no less important from the economic point of view. Political freedom brought about in its wake freedom in the economic sphere. The days of White Hall dictating the economic policies of India had gone when a fully representative Government was established at the Centre. It is imperative that the Government should review the fiscal policy followed in the past and modify it with a view to secure the rapid industrial development of the country.

Our achievement of freedom was by no means an unmixed blessing. It resulted in the vivisection of the country into the Indian Union and Pakistan which was fundamentally against the economic unity of India. The economic effects of division are very significant. The Indian Union became deficit in cereals from 2 to 3 million tons per year while Pakistan gained a surplus of 1 million tons. Eighty per cent of the population remained in the Indian Union while the area which came to her share under rice was 69 per cent and under wheat only 60 per cent. Undivided India had the monopoly in jute producing more than 75 per cent of the world production; but the division resulted in 75 per cent deficit of the requirements of the jute mills in the Indian Union. Again, India undivided was only next to the U.S.A. in the production of raw cotton; but after partition the Indian Union became deficit in raw cotton to the extent of 10½ lakhs bales annually. It is needless to state that urgent steps must be taken to make the Indian Union self-sufficient in regard to her requirements of foodgrains and agricultural raw materials; and a sound fiscal policy will play a large part in achieving success in this endeavour.

The pattern of the foreign trade of India has also undergone a change on account of the partition and the creation of the two dominions. Export trade in raw jute and cotton which occupied a very important place was lost. Secondly, during the period our imports of finished goods and exports of raw materials declined while exports of semi-processed goods and manufactured goods had gone up. It will be in the interests of the country to adopt a suitable fiscal policy to promote the foreign trade on the lines of its altered course.

It will be clear from the above that the economic background of India had altered since the Fiscal Commission reported in 1922 and that it necessitates a fundamental change in the approach to the problem with which the present Commission is concerned.

2. (a) The changes in the agricultural situation of India since 1922 in respect of production can be noted as under: Between 1922 and 1939 production of foodgrains considerably declined. Rice output recorded a decrease of about 10 per cent. Production of millets also declined while wheat production was almost stationary. The production of cereals since 1939 has been further deteriorating. India has been depending on imports of foodgrains to the extent of 2 to 4½ millions tons per year.

The yield of crops per acre in India is very poor compared to the conditions obtaining in other countries and it is necessary to increase the yield by scientific methods of cultivation, and application of chemicals and manures to the soil. The Government of India are determined to make the country self-sufficient in regard to its food requirements by 1951. Land reclamation schemes to increase production by extensive methods are undertaken and intensive methods of cultivation by sinking tube wells, developing minor irrigation work etc. are also taken up in earnest. It may be hoped that India will succeed in attaining self-sufficiency in foodgrains.

Among the non-food crops, jute, cotton, sugarcane, oilseeds and tobacco may be mentioned. The area under non-food crops was restricted by the Central and Provincial Governments for some time with a view to make such lands available for production of foodgrains. Attempts in this direction did not seem to have achieved the desired object but on the other hand resulted in a loss to the cultivator who was forced to divert lands from the more paying commercial crops to food crops, and also in shortage of agricultural raw materials required by our industries. Recently the Government of India have taken steps to increase the area under jute and cotton with a view to avoiding dependence on Pakistan for these agricultural products. The Government moved in the right direction and it can be hoped that the present policy would go a long way in promoting the cultivation of commercial crops.

(b) Consumption of almost all agricultural products has considerably increased during the past 26 years. Population of India has been increasing at a rate of 50 lakhs a year. But, unfortunately production of foodgrains has not only not kept pace with increase in population but on the other hand has gone down. A wide disparity between internal production of foodgrains and demand has thus been created. Secondly, due to war time increase in the money incomes some people who were accustomed to eat millets in the past have made rice and wheat their staple diet and thereby the demand for them has increased. The demand for agricultural commodities, which are raw materials to Indian industries as for example, jute, cotton and sugarcane has also gone up during the same period. A reference has already been made to the need for increasing the acreage under cash crops.

(c) Foreign trade of India in agricultural commodities has undergone very important changes. It was already pointed out that India lost her trade in

raw jute and cotton. Apart from this, 50 per cent. of the export trade of India in oilseeds particularly groundnuts was replaced by trade in oils—a change which give impetus to the growth of the oil industry in India and as such is desirable. But trade in linseed and groundnut suffered a setback recently on account of competition from Australia, South and East Africa which have begun growing these commodities. Prices of commodities in India are in general quite out of parity with world prices and as such the competitive power of India has been largely crippled.

The above are the principal changes that took place in our agricultural situation in respect of (a) production (b) consumption and (c) international trade in agricultural commodities.

3. The consumption of cotton by all the mills in India is estimated at about 41½ lakhs bales a year. But the Indian Union produces only 31 lakhs bales and for the balance depend on supply from foreign countries. The consumption of raw jute by the jute mills in India is estimated at about 60 lakhs bales per year, and production in the Indian Union is about 20 lakhs bales and for the balance our industry depends on supplies from Pakistan. It must be clear from the data that in regard to these two principal raw materials India depends on external sources of supply and to the extent that such supplies will not be regularly coming industrial progress will be handicapped. Secondly, the development of industries will also depend on the availability of raw material at reasonable prices. It is a well known fact that prices of raw materials including agricultural raw materials in India are very high and that they partly account for the high costs of manufacture. Again, high cost of foodgrains is another contributory cause for the increase in the cost of production and of wage bills. Industrial progress will depend on a suitable wage and cost structure besides other requisites.

The extent to which the pace of industrialisation in India is being affected by the changes in the agricultural situation can be gauged from the above.

4. Indian agriculture must be developed on sound lines so as to promote any policy of intensified industrialisation. Acreage under jute and cotton must be increased with a view to make India self-sufficient in these two principal commodities. Improved varieties of cash crops which supply raw material to the industries must be grown. Indian agriculture also needs improvements in regard to yield per acre which is at present very poor. There should be proper planning between cash crops and food crops so that the production of agricultural raw materials required by the industries will not suffer. Development of irrigation projects both short term and long term must receive due attention from the Government.

(b) It is a well known fact that under foreign regime India could not follow a national policy of mining and develop local mineral industries. Our minerals were largely exported to foreign countries and helped the development of mineral industries there. India is very rich in important minerals and of these mention may be made of coal, manganese, mica, titanium, magnesite, bauxite, refractories, asbestos, gypsum, barytes, monazite, gold, copper, lead, zinc, tin, petroleum, ilmenite, chromium, steatite, etc. The Government have already declared it their policy to control the production and utilisation of important minerals and in this respect there should be co-ordination between the States and the Centre.

Industrial development was very limited in the early twenties of this century. An idea as to the production of important industries in 1922-23 can be gathered from Table I (Appendix). Indian industries made some progress since then. India became almost self-sufficient in regard to production of cement, cotton textiles, sugar and matches. Self-sufficiency was partially achieved in our requirements of iron and steel, paper, glass and soap.

But the development of industries in India was very much handicapped on account of the unhelpful attitude of the foreign government which was interested more in the U. K. manufacturers getting more raw materials from India and retaining large markets here for their finished goods. The policy of discriminating protection evolved by the Government of India in 1923 was very halting and meagre to promote an all round industrial development. It is on account of the limited scope for protection that several industries like chemicals could not be developed. India was nearly as unprepared on the eve of the second world war as she was at the time of the first world war and she was faced with inevitable difficulties arising out of the war time conditions. The weakness of our industrial structure was seriously exposed and our deficiency in chemicals caused severe handicaps even to well established industries like textiles, paper, sugar and leather. The vast opportunities opened before India could not be fully exploited while Canada and Australia made very rapid strides during war time. The result is that India still remains an agricultural country with a population of 35 crores of which nearly 70 per cent. depend on agriculture for their living and only 2 to 3 per cent. are employed in large scale industries, and industrial employment in all industries being about 10 per cent. There has not been considerable diversion of employment from agriculture to the industrial sector which is vitally necessary to secure a balanced economy with a view to create maximum employment and raise the standard of living of the people.

6 Industrial development in India has not proceeded on sound lines. We have not developed any key and basic industries, without which industrial progress cannot be achieved. Industries reached their peak levels of production during war but they could not be sustained later on. The following industries must be established to promote on all round development:—

Arms, Ammunitions and Defence industries; Basic industries; power, electricity, mining and metallurgy, iron and steel, coal, manganese and non-ferrous metals industries; Engineering industries: machinery of all kinds, machine tools, agricultural machinery, tractors, electrical machinery, prime movers etc; Chemical industries: heavy chemicals, fertilisers, dyes, plastics, pharmaceuticals, electro-chemicals etc; Transport industries: railway engines and wagons, ship building, automobile, aircraft etc; Cement; Consumption goods industries: textiles—cotton, silk and wool, glass, leather goods, paper, tobacco, oil, rubber goods, sugar, electrical goods and soap.

7. Small scale and cottage industries occupy a very important place in the economy of India. They provide supplementary sources of income to the agriculturist class and it is well known that agriculture does not provide employment for the whole year and from 3 to 4 months the cultivators have no work on the land. During the off season and also spare time in the season the agriculturists engage themselves in small scale and cottage industries. But for subsidiary occupations they will not be able to earn their livelihood entirely from agricultural occupation.

A small scale industry is one which can be run with a capital of less than a lakh of rupees by employing a few workers and with the aid of power in general. A cottage industry may be understood as that which is carried on with a small capital and mostly by domestic labour. There is not much conflict between small scale and cottage industries in general. But, in the case of products which are manufactured both on a cottage basis and on a small scale wherein power is used the quality of the goods will be better in the case of small scale industries and as such they offer competition to the cottage industries. For example cloth is manufactured by powerlooms and as well as by handlooms and quality is better in the former case. But, the lines of production in which competition is likely between small scale and cottage industries are very limited. There

need not be therefore any fear that cottage industries will suffer on account of the growth of small scale industries.

Small scale industries, cottage industries and large scale industries generally do not come into conflict with one another and they can be developed simultaneously by ensuring co-ordination among them. Even though large scale industries will be greatly developed the interests of small scale and cottage industries need not be sacrificed. It will be possible to supplement production of large scale industries by small industries so as to increase the total quantity of goods produced to meet the internal demand and as well export the surplus to foreign markets.

Cottage industries *vis-a-vis* large scale industries are not in conflict. Whatever might be the development of large scale industries in India cottage industries will certainly have their place in the economy of the country for the simple reason that they provide occupation to the agriculturist class. It is possible to establish cottage industries suitable to the Indian economy on the lines of their development in other countries and particularly in Japan.

8. It can be inferred from the foregoing that small scale and cottage industries have a significant role to play in the economic development of our country under the present circumstances and as well as in the long run. It may also be added that there is a real need to increase production of certain consumer goods which the large-scale industries in the country are not able to produce in required quantities to meet the entire internal demand. There should be proper co-ordination and integration of these three, cottage and small-scale industries and large scale industries and the economy of India must be built on a sure foundation.

9. (a) The following small scale and cottage industries can be developed as subsidiary to agriculture: poultry, cattle breeding, dairy farming, bee keeping, sericulture and ericulture, fruit canning, cashewnut kernels, dehydrated fruit and vegetables, fisheries, spices, condiments, pickles, jaggery manufacture, cotton ginning, carding and spinning, rope making, charcoal and firewood etc.

(b) The following small scale and cottage industries can be developed as supplementary to large scale industries: handloom cloth, powerloom cloth, glass and glassware, bonemeal, matches, etc.

(c) Some other cottage and small scale industries which can be developed as independent units of production are: pile carpets, cumbly weaving, lace-goods making, oil crushing, tiles and bricks, embroidery knitting, comb making, hand made paper, ivory and wood carving, cutlery, button making, cigar making, bidi making, metalware and vessels, trunks making, slate and slate pencils, agricultural implements, carpentry, repair workshops, ploughs, axes, sickles, rice and flour milling, bangles, brushes, hosiery, leather goods making, umbrellas, etc.

10. (a) Among cottage industries which are specially suited for export purposes mention may be made of pile carpets, ivory and wooden carvings, coir and coir products, silk embroidery works, certain types of jewellery, brassware, enamelware, etc.

The Government of India must take steps to ensure markets to the Indian products manufactured on a cottage scale which are capable of getting a fairly large foreign exchange. Adequate steps must be taken by the Government to popularise cottage industries in foreign countries. A collection of products important must be kept in the museums attached to the offices of the Trade Commissioners and where such museums are not existing they can be opened. Arrangements may also be made to open museums in important cities on the Continent and in America. Participation in fairs and exhibitions in

foreign countries by the Government of India as well as the businessmen by sending products of cottage industries will have great advertisement and propaganda value. It is also suggested that articles of artistic value and fine craftsmanship may be presented by the Government of India to the offices of the embassies, consulates, and others in foreign countries. Colourful advertisements of our cottage products for sale must be made in foreign journals and magazines.

11. Where a cottage industry has to depend for its raw material on a large scale industry which is given protection, the cottage industry has to bear the consumers' burden of protection; but, it is very difficult to draw any conclusions about the effects resulting therefrom. It does not appear that small scale industries are affected by protection in general. For, the industries that receive protection in India have no competition with small-scale industries producing similar products.

12. The main handicaps from which small scale and cottage industries suffer at present and remedies to remove them can be suggested as under:

(a) Supply of raw material: When the industry depends on local raw materials there is not much difficulty. But when it is to be imported help must be given by the Government.

(b) Supply of technical personnel: It is an important matter and provided technical skill is shown in the manufacture of small scale and cottage products the demand for them will increase. It is desirable that technical training centres are opened by the Government to impart education to the village artisan. Japanese technicians are now employed by the Government to train the evacuees and refugees in some cottage and small scale industries. It is desirable that arrangements are made for similar training to the village craftsmen at various centres throughout the country.

(c) Technique of manufacture: The technique of manufacture of small scale and cottage industries in India has not undergone much change since a very long time. A new orientation can be given by introducing new designs, novel patterns which will create fresh demand for these products.

(d) Structure and Organisation: Cottage and small scale industries can be well developed on co-operative lines.

(e) Supply of finance: It is true that to some extent our small scale and cottage industries suffer for supply of adequate finance. Co-operative credit facilities are opened in some villages and they have to some extent been helpful to meet the financial requirements of these industries. Legislation for the creation of suitable institutions for giving financial assistance to the small scale industries can be made by the Government.

(f) Marketing facilities: Market research must be conducted and production must be adjusted to the taste of the consumers both at home and abroad.

(g) Other forms of assistance: Supply of electric power at cheap rates will be of great help to promote cottage and small scale industries.

(h) Fear of competition with large scale industries: It is already stated that Co-operative relations can be promoted between large scale and small scale industries.

13. When Trade Agreements are entered into steps must be taken by the Government to ensure that the interests of small scale and cottage industries are promoted. Quota of these products must be included in the agreements and the maximum offtake by other contracting countries ensured.

Policy of Discriminating Protection and its application since 1923.

14, 15 & 16. The Fiscal Commission appointed by the Government of India in 1921 recommended that protection should be given to industries and discrimination should be exercised in the selection of industries for protection and in the degree of protection offered so as to make the inevitable burden on the community as light as is consistent with the due development of industries. Three conditions were laid down which an applicant industry must satisfy so as to merit consideration for receiving protection and they are:

1. The industry must be one which possesses natural advantages such as abundant supply of raw material, cheap power, and a sufficient supply of labour and a large home market;

2. The industry must be one which without the help of protection is either not likely to develop at all or is not likely to develop so rapidly as is desirable in the interest of the country; and

3. The industry must be one which would eventually be able to face world competition without protection.

The policy of protection thus recommended by the Commission was based on the theoretical argument for protection that an infant industry which has natural advantages will be able to develop and ultimately face competition from other countries without the need for protection if it is initially assured of a reasonable measure of protection.

The above three conditions constituted what is popularly known as the triple formula which was applied for granting protection to Indian industries from 1923 to 1939. These conditions were very defective for various reasons. Industrially advanced countries like the United Kingdom, the U.S.A. and Japan do not have natural advantages as enumerated in the first condition. Industries in those countries are depending on external sources of supply for raw materials and for example, the cotton texitle industry in the United Kingdom and Japan imports raw cotton from other countries and the rubber industry in the U.S.A. depends for the raw materials only on foreign sources of supply. The second condition precludes the scope for assuring protection as a positive help for the starting of certain industries which are essential for the economic well being of the country. The third condition need not necessarily be satisfied even before an industry is given protection by the State: but it is enough if the Government is satisfied that ultimately the burden of protection on the consumer will vanish and the industry will be able to face world competition without protection.

The above three conditions were very strictly enforced by the Government for considering the case of an industry for protection. Protection was denied to the glass industry because soda ash which is one of the raw materials required was not produced in India. Chemical industry was likewise refused protection because sulphuric acid was not manufactured in the country.

The policy of discriminating protection proved slow, ineffective, and disappointing to meet the requirements of a predominantly agricultural country with vast potentialities opened up before it for the development of industries. The working of the policy revealed another fundamental defect in that that each industry which came up before the Tariff Board and the Government for protection was considered in isolation without reference to the problem of industrialisation of the country as a whole. Mr. B. P. Adarkar has in this connection observed thus: "The discriminating protection on the other hand has vouchsafed nothing better than perfunctory assistance, indifferently and grudgingly rendered to the industry which subsequently has been left to take its

own course. Very often the dilatory procedure adopted by the tariff machinery and by the Government has made the subsequent protection a veritable dead sea fruit".

It may be noted that even though the Fiscal Commission recommended the creation of a permanent Tariff Board only *Ad hoc* Tariff Boards were created to examine the cases for protection that were coming up before the Government from time to time. Again, the Fiscal Commission stated that the Government should publish the results of the enquiry promptly whether it agrees with the conclusions of the Tariff Board or not and this was not in general followed.

17. The supplementary measures for protection and assistance to industries recommended by Fiscal Commission in Chapter 8 of their report are technical education, railway rates policy and measures against dumping. These measures are quite essential for the purpose of promoting the growth of industries. But, it is regrettable that adequate steps are not taken to implement them even though 26 years have passed since the above recommendations are made.

(i) Technical education: Technical education is one of the fundamental prerequisites of industrialisation in any country. The system of education in India is very defective and it is not suited to train technical personnel of various grades. Skilled personnel for the running of an industry can be divided into managers, supervisors and skilled workers and it is necessary to take immediate steps to satisfy the requirements of the Indian industry in this regard. The Bevin Training Scheme played an important part in supplying the needs for technical personnel of the war time industries and a similar scheme can be evolved to suit the peace time needs of industries. Technicians must be brought from foreign countries to train the personnel in India and also Indian students must be sent abroad for training. Polytechnic Schools in Japan supply the technical personnel of the industries and similar schools must be started on a large scale in India. Technical institutes on the model of the Massachusetts Institute of Technology must be set up to give training in technology and business administration.

(ii) Railway Rates policy: The rates structure needs to be overhauled to suit the industrial development and trade and commerce of the country. Telescopic rates must be introduced. The Railway Rates Tribunal recently created will be of real help in advising the Government on fixation of rates.

(iii) Measures against dumping: Anti-dumping measures will be necessary when the industry in the country will be faced with unfair competition and dumping. Suitable legislation must be made in this regard.

18. (a) Please see answers to questions 14, 15 and 16.

(b) The Fiscal Commission of 1922 stated that in the application of the principle of discriminating protection regard must be had to the financial needs of the country and to the dependence of the Government of India on import, export and excise duties for a large part of its revenue. The tariff rates of India are determined primarily to serve the revenue needs of the Government and this aspect of protection did not receive due consideration.

19. The Government of India by a notification in 1940 assured protection to the industries started during war time to meet the military demands. An Interim Tariff Board was constituted in 1945 and the policy laid down for the guidance of the Board to consider the case for protection was expressed in the following terms:

(1) That the industry is established and conducted on sound business lines;

(2) (a) That having regard to the natural and economic advantages enjoyed by the industries and its actual or probable cost, it is likely within a reasonable

time to develop sufficiently to be able to carry on successfully without protection or State assistance;

(b) that it is an industry to which it is desirable in the national interests to grant protection or assistance and the probable cost of such protection or assistance to the community is not excessive.

It can be inferred from the foregoing conditions that there is not much deviation from the fundamental policy laid down by the Fiscal Commission of 1922-23 in regard to the granting protection.

20. It is understood that the total number of cases referred to the Interim Tariff Board was about 49 and the Board reported on 45 cases within its term of office. Out of this 38 were war time industries and 4 were old industries. Protection was recommended in several cases by conversion of the existing revenue duties into protective duties.

Review of the effects of the past tariff policy.

21 to 28. The revenue tariffs imposed in the past have not had any considerable influence on the growth and development of industries and on the course of foreign trade both of which were affected by other factors.

29. The foreign trade of India had undergone very important changes during the period between 1923 and 1939. But, it will not be right to attribute these changes to the effects of the tariff policy; and subject to this qualification the following changes can be noted:

The composition of India's Import Trade showed a significant change between 1923 and 1929. Imports and finished goods declined by 10 per cent. and the fall was more discernable in the case of cotton piecegoods, iron and steel, cement, sugar, soap and matches, while the imports of industrial raw materials increased by 10 per cent. Exports of raw materials had gone up by 8 per cent. between 1923 and 1939: and the share of manufactured goods in total exports declined considerably owing chiefly to a fall in the value of the export of cotton and jute manufactures.

Changes in the direction of our foreign trade also had taken place during the period between 1923 and 1939. Imports derived from the U. K. came down by 20 per cent. while the share of the Empire countries increased from 5 per cent. to 10 per cent. Japan, Germany, U.S.A. and other countries improved their trade with India and their share increased by 15 per cent. Increase in the share of the U. K. in the export trade of India was noticed between 1923 and 1939: but the share of Empire countries decreased. Export trade with other countries was more or less stable.

Imports were gradually displaced by indigenous products in regard to cotton textiles, sugar, matches, glass and soap. Internal trade in these commodities increased and the customs revenue of the Government had fallen. But, in some cases small excise duties were levied on the products of the protected industries, and the loss from customs was partly recovered therefrom.

Factors in the formulation of a new Fiscal policy.

31. The foreign trade of India had undergone significant changes during the period between 1939 and 1945. Owing to war time exigencies imports of manufactured goods had considerably fallen and India developed export markets for finished and semi-processed goods. The direction of trade also changed in the same period. While exports to the U. K. had fallen they increased to other countries. Another notable change was that not only the external debt of the country was wiped off but also India accumulated sterling balances to the tune

of Rs. 1,700 crores and thus emerged from a debtor to a creditor's position in the international market.

The post war period 1945-49 brought about striking changes in the foreign trade of India. A serious drain was caused on our foreign exchange on account of huge import of foodgrains. India was divided into two dominions and as has already been pointed out we lost export trade in two important raw materials, jute and cotton. The buyers market has begun emerging in the world and on account of the prices of agricultural commodities and industrial products being high, India lost some export markets which were acquired during the war time. The balance of trade turned unfavourable and it came to the extent of Rs. 200 crores in 1948-49 which is the first financial year after the partition of the country.

32. (a) *Import trade.*—Immediately after the termination of the war imports were liberalised and several items were placed on the O.G.L. with a view to increase the supply of consumer goods and thereby bring down the price level. The country was flooded consequently with numerous goods and loud protestations were raised against indiscreet imports. Some of the war time industries which were manufacturing similar articles in India were doomed to their fate because they could not compete with the foreign products. A large part of our sterling balances which were accumulated at the cost of great sacrifice and hardship were spent indiscriminately on imports of consumer goods. The Government realised the gravity of the situation at a later stage and adopted policy of severe restrictions on imports, particularly from dollar and hard currency countries.

Export trade.—Export trade was brought under strict control during the war time to conserve the supplies of essential commodities and make them available for meeting the war demand. Surpluses in respect of various commodities were estimated and exports were strictly regulated. After the war was over the export controls were liberalised and the policy of the Government in respect of decontrolling export trade was far in advance of the freeing of import trade. The prices of goods exported from India had gone up on account of the keen demand for them in foreign countries immediately after the war when competition from other countries was absent. But with the revival of export trade of other countries which gradually recovered from war time devastation the position of India became difficult and ultimately our export markets in several goods were lost, because our prices compared very unfavourably with world prices.

(b) Growth and development of industries: It has already been stated that on account of indiscreet imports some industries which were established during war time were very badly affected because they could not face competition from foreign countries. The Government ought to have avoided delay in referring the cases of those industries for protection to the Tariff Board and granting protection in accordance with the recommendations of the Board.

The change in the traditional pattern of the foreign trade of India—increase in imports of raw materials and exports of semi-processed and manufactured goods and decrease in exports of raw materials and imports of finished goods—is indicative of the growing industrialisation of the country. Secondly, the change in the direction of export trade and the opening of new markets will give a stimulus to the growth of industries in India. Steps must be taken to maintain the foreign trade of India along the altered course.

33. Import controls and quantitative restrictions have been acting as protective barriers to the war time industries and it is true that control of foreign trade will have a direct effect on the growth of industries in the country. But, industrial development must be accomplished by a liberal policy of protection

and assistance. India is still far behind the industrially advanced countries and as such the fundamental premises on which the Fiscal Commission based their recommendations in 1922 still holds good.

34. Both fiscal and non-fiscal measures are necessary for protecting and developing industries. Fiscal measures comprise of tariffs, quotas, quantitative restrictions and subsidies and non-fiscal measures constitute the supply of technical personnel, supply of raw materials, plant and machinery, transport facilities and measures against dumping. It is not possible to determine the relative importance of fiscal and non-fiscal measures for the promotion of trade and industry. Both are important and the importance of each may vary according to the circumstances.

35. India has developed some important industries and foreign trade has changed in its character. Exports of manufactured and semi-manufactured goods have increased; and raw material exports have decreased. India became deficit in regard to jute and cotton. An appropriate tariff policy will be of great help to further our foreign trade and assist in the development of industries. The course of foreign trade should be such that the industries in the country will get adequate supplies of raw materials and that their manufactured products will find markets in foreign countries.

36. The tariff policy of India in the short period should aim at maximisation of industrial production.

37. There should be an unqualified pronouncement that the Fiscal policy best suited for India is protection.

38 & 39. Industries which are essential for national defence must be protected and developed and there should be no conditions for granting protection to such industries.

Basic and key industries also must be granted unqualified protection since without developing such industries it will not be possible to fill up the gaps in the present industrial structure of our country.

All other industries must be granted protection irrespective of the fact that raw materials are available in the country or they can be imported from foreign countries. Protection must be given not only to the industries which have a large home market but also to industries which have a potential export market. The condition that the industry must be one that will ultimately be able to stand on its own legs and face foreign competition without protection can be deleted and questions relating to cost can be considered by the Tariff Board.

40. The grant of protection should not be confined to infant industries but should be considered if necessary even before an industry is established. It is imperative in an industrially backward country like India that protection will be offered as a positive incentive to the starting of industries which are necessary for national welfare.

41. Various methods are advocated for protection of the industries and they can be examined as under:

(i) Protective import duty: It is levied to equalise the price difference between the c.i.f. value of the imported article and the cost of manufacture of the indigenous product. The quantum of protection is determined on this basis.

(ii) Bounty or subsidy: A bounty or subsidy will enable the home industry to reduce its price and thus stand foreign competition.

Bounties and subsidies largely assisted the development of industries in foreign countries. Industrial development in India can be prompted by the grant of subsidies and bounties.

(iii) System of pool price: It does not appear that this system works satisfactorily and hence it may be discarded.

(iv) Quantitative restrictions of imports: They can be employed as checks on dumping and also as a positive help to the growth of domestic industries by restricting competition from imported articles. Industrially advanced countries have resorted to such restrictions to help home production.

It is not proper to say that some measures are normal and others abnormal. One or more of the above three methods can be adopted to ensure the growth of indigenous industries.

42. Anti-dumping measures are quite necessary to safeguard the interests of the indigenous industry when it is faced with unfair competition from goods dumped into the country. Anti-dumping legislation is made by some countries including Australia, Canada and the U.S.A. The Tariff Board can be directed to investigate into cases of dumping and recommend to the Government the passing of necessary legislation.

43. Export duties may be levied on raw materials which are required by the industries in the country. Such duties will have the desired effect of checking exports in those commodities. But, they should be resorted to only under exceptional circumstances.

Export control can be adopted for the purpose of safeguarding the domestic consumer against critical shortages and conserving supplies of raw materials for utilisation by domestic industries. But, the Government must be fully satisfied that the conditions prevailing will justify the enforcement of control.

44. An established industry can be assisted by suitable fiscal measures to maintain its exports and among such measures mention can be made of subsidies, tax relief and freight relief. Subsidies will stimulate exports; but the importing countries may object to them. Tax relief will be a positive inducement to increase exports of manufactured goods and it is one of the best methods. Freight relief also is of great importance to encourage exports of finished goods. India has not sufficient national shipping and as such the scope for relief in shipping freights is very limited. But, as regards movement of goods by rail from manufacturing centres to the ports, freight concessions can be given so as to help the industries to increase their exports.

45. The method adopted by the Tariff Board for fixing the quantum of protection is to compare the fair selling price of domestic product with the landed cost of the imported product. From a theoretical point of view there cannot be any objection for determining the quantum of protection on this basis. But, attention must be paid to several factors like freight charges, cost of equipment, future trend of variations in prices etc. in determining the quantum of protection.

46. Variation in duties is necessary to meet variation in import costs.

47. Protection when it is to be given by tariffs alternative forms of beauty such as specific, *ad valorem* and compound can be considered. Advantages of the various kinds of duties are well known and according to the circumstances of the case for protection suitable duties can be decided.

48. Tariff quotas will play an important part in the trade.

49. The period of protection will naturally depend on the nature of the industry seeking protection. When once protection is given the industry should continue to receive it until such time it will be able to stand on its own legs and face world competition. The question whether to give the protection for a minimum period or a maximum period can be decided only in consideration of the various factors influencing the development of the industry and its ability to face foreign competition without protection.

50. The existing system of tariff requires a thorough revision. It is mainly a revenue tariff and it must be so modified as to promote the industrial development of the country.

51. Having regard to the future set up of our foreign trade and the anticipations relating to the course of international trade underlying the Havana Charter and the broad lines of industrial policy as laid down in the statement of the Government dated 6th April, 1948 the objectives of our long term fiscal policy can be formulated as under—

1. Industrialisation must be secured by adopting suitable methods of tariff quotas, subsidies and quantitative restrictions.

2. The policy of industrialisation must be a part of a larger economic policy which should aim at creating maximum employment and raising the standard of living.

3. Direction of the foreign trade must be along the altered course of increased exports of finished and semi-processed goods and reduced imports of manufactured goods.

52 and 53. It is not necessary for the Government or Quasi-Government institutions to participate in the foreign trade in order to facilitate the objectives of our fiscal policy either in the short period or long period.

Non-fiscal measures for the promotion of trade and industry.

54 to 57. Non-fiscal measures that the Government should adopt for implementation and furtherance of an approved fiscal policy can be enumerated as under:

(a) Supply of essential industrial raw materials where they are not readily available in the country: It must be the policy of the Government to allow imports of industrial raw materials without any restrictions and secondly such imports should be allowed duty free as far as possible.

(b) Supply of essential plant and machinery: Several Indian industries require the old machinery to be rehabilitated and machinery must be purchased abroad for the starting of various industries under the postwar plans. The Government can assist the industrialists in this regard by reducing the import duty on machinery as low as possible, and securing at the earliest period and cheapest price such machinery as is required.

(c) Supply of cheap fuel or power: Power supply is the primary requisite for the rapid industrialisation of India. The present supply of power falls short of our industrial requirements. The Government must see their way to execute such big hydro-electric-cum-river projects like the Ramapadasagar to ensure abundant supply of power to the industries. Coal production also must be stepped up.

(d) Provision of cheap, adequate and quick transport, both for the movement of raw and semi-processed materials and their finished products made available under a scheme of rationalised freight structure: Please see answer to Question No. 17(ii).

(e) Supply of technical personnel of different grades: Please see answer to Question No. 17(i).

(f) Supply of technical information about industrial methods and processes: It will help largely the growth of indigenous industries on modern lines with uptodate technique.

(g) Supply of industrial finance, both for use as block and as working capital: An Industrial Finance Corporation was set up by the Government of India. A similar body was created by the Madras Provincial Government. And it is understood that other Provincial Governments are also contemplating to bring to existence Industrial Finance Corporations. These Corporations can be of real financial assistance to the industries and therefore they must be developed on sound lines.

An advisory body consisting of accredited representatives of the trade and industry can be created to secure co-operation between the Government and the business community in order to ensure the supply of the above facilities to the industry and such facilities as may be considered necessary.

Fiscal policy in relation to Commonwealth preferences.

58 to 65. There is nothing fundamentally objectionable against the granting of tariff preferences to the United Kingdom and the Commonwealth countries. But, the question must be considered in the light of the new political status that India attained after achieving independence.

Such preferences do not appear to militate against the principles underlying the General Agreement on Tariffs and Trade and the Havana Charter on World Trade and Employment.

It is necessary to formulate comprehensive principles underlying the grant of preferences. A set of such principles in the present circumstances can be based on the following considerations—

1. That no preference will be granted on any of the articles without the approval of the legislature,

2. that no preference given in any way will diminish the protection required by Indian industries,

3. that preferences should not involve on balance any appreciable economic loss to India,

4. that preferences should not impair the bargaining power of India in her trade relations with other countries.

The existing tariff preferences enjoyed by the United Kingdom and the Commonwealth countries must be modified in the light of the above principles.

Treatment and obligations of protected and assisted industries.

66. Industries receiving protection or assistance from the Government owe a special obligation to the rest of the community as regards the manner in which they render service and such obligations can be stated as under:

1. Price policy and price structure: Profiteering should not be the motive

of the industry receiving protection or assistance. It should aim at bringing down the price in parity with world price within the minimum period possible, so that it can face competition when protection is withdrawn.

2. Wages and conditions of labour: A protected or assisted industry cannot have a special obligation in respect of wages and conditions of labour. Whatever legislations regarding these matters are applied to other industries will equally apply to the protected or assisted industries.

3. Adoption of technical improvements: It will naturally be in the interests of the industry concerned to adopt technical improvements which will help its growth and price reduction.

4. Initiation of research in the technique of production and distribution: The industry concerned will largely be benefitted by research in the matter of improving the quality and reducing the price both of which when secured in a large measure will increase demand and also satisfy the consumers.

5. Training of apprentices and Government scholars and stipendiaries: Industries receiving protection must agree to train apprentices and government scholars and stipendiaries.

6. Control over the distribution of products of protected industries in certain contingencies: There cannot be any objection to such a step being taken by the Government under extraordinary circumstances.

67. Protected or assisted industry should not engage in any restrictive practice in respect of production, distribution or prices. But, the protected industries should not be precluded from forming associations with a view to effecting economies by organising distribution or in any other manner. In regard to cement for instance the cement companies formed themselves into an Association which has been ably handling sales in the interest of the consuming public.

68. No conditions should be laid down regarding the financial structure of the industries receiving protection. The Tariff Board will naturally enquire into this question.

69. (a) Standardisation of the products of protected industries is very important and there cannot be any objection against it. Quality must also be improved so that the indigenous products compare favourably well with similar goods imported from abroad. But, quality control is something different and it means that goods of only a specified quality should be produced. Such a step cannot be taken.

(b) There is no need to set up a special institution for enforcing standardisation or quality control. The Indian Standards Institution which has already taken up standardisation of certain goods is the fitting body for the task.

70. The obligations of the industry cannot be embodied in the relevant statutes dealing with protected or assisted industries. They can be determined by the Tariff Board which must take into consideration special circumstances of the industry.

71. No special administrative machinery is necessary to enforce the obligations of a protected or assisted industry. These functions can be entrusted to the Tariff Board which will be reviewing the working of the protection granted and recommending to the Government such measures as are necessary to be taken from time to time.

Organisation, methods and procedure.

72. The existing administrative organisation will not be adequate to deal

with the problems of implementation that will arise out of the Government's acceptance of a comprehensive policy as regards fiscal measures and non-fiscal measures.

73. An independent body must be constituted to deal with these subjects.

74 to 77. It is not desirable to set up such an Organisation like a Trade and Industrial Planning Commission sub-divided into suitable branches to deal with planning and execution of various measures relating to tariffs, other fiscal and non-fiscal measures.

It is necessary to constitute a permanent statutory Tariff Board which can conduct independent enquiries taking the initiative of its own accord and without the need for receiving a directive from the Commerce Ministry to enquire into cases for protection as has been done at present.

78. The Indian Fiscal Commission of 1921-22 recommended that a Tariff Board should be constituted and it should be a permanent body and it should consist of members who are of high ability, integrity and impartiality preferably with knowledge of economics and practical acquaintance with business affairs. These qualifications are satisfactory but it is necessary to include businessmen also in the personnel of the Tariff Board.

79. The appropriate functions of the Tariff Board can be enumerated as under:

1. To investigate into the claims for protection of industries and to recommend the rates of protective duties, subsidies and bounties, imposition of quantitative restrictions etc.

2. To recommend supplementary measures for assisting industries in respect of supply of raw materials, technical personnel etc.

3. To investigate into the effects of protective duties or other measures of assistance and to recommend modifications from time to time.

4. To recommend measures for the establishment of defence and basic industries which are of national importance.

5. To suggest duties on imports of raw materials and enquire into the working of export and import duties and to suggest such modifications as are necessary from time to time.

6. To investigate into the cost of manufacture of a commodity produced in the country and to determine the relation between the factory, wholesale and retail prices.

7. To enquire into cases of dumping and to recommend measures for protection of indigenous industries from dumping.

8. To consider the effects of excise duties on indigenous industries.

9. To consider the effects of *ad valorem*, specific and compound duties and tariff valuation of various articles and to make recommendations for any changes that may be desirable.

10. To consider preferential tariffs and their effects on the industry and trade of the country and to study tariff relations with other countries.

11. To investigate questions in connection with the treatment of Indian products by foreign countries and suggest suitable action to be taken by the Government.

12. To study tariff systems of other countries.

The above functions are not exhaustive, but only illustrative.

80. The functions of the present Indian Tariff Board as are laid down in the Government of India resolutions of 3rd November, 1945, 26th November, 1947 and 6th August, 1948 are not adequate. The changes that are suggested can be gathered from the functions of the Tariff Board enumerated above.

81. The present structure and organisation of the Tariff Board is not adequate for discharging the duties suggested above. It should be enlarged and assisted by Research and Technical branches.

82. It is already suggested that the present procedure under which an industry's fitness for protection is considered only on an application by the industry itself is not sound. The Tariff Board having regard to the needs of the industrial development of the country must be in a position to enquire into the cases for protection and make recommendations on its own accord. Protection must be assured as a positive inducement for the starting of such industries as are vitally necessary for national economy.

83. There is a greater need to modify the present procedure in the case of small and unorganised industries.

84 to 87. An application should be addressed to the Tariff Board directly and the present procedure under which the Ministry of Commerce receives the application and if only it is satisfied that a *prima facie* case for protection is established refers the case to the Tariff Board must be given up. The Tariff Board should complete the enquiry as expeditiously as possible and make its recommendations. The recommendations of the Tariff Board should be normally accepted by the Government and implemented without delay. If for any reason the Government rejects them such reasons must be made known to the public.

88. The Tariff Board must be placed on a statutory basis. The statutes should contain clauses relating to the nature of the duties and functions entrusted to the Board. But, the general procedure to be followed in tariff enquiries and the manner of enforcement of the obligations of protected or assisted industries need not be included in the statutes since the economic conditions both at home and abroad are not settled and there will be need to change our policy to suit the circumstances.

Fiscal policy in relation to Havana Charter on Trade and Employment and the General Agreement on Tariffs and Trade.

89 to 104. The objectives of the Havana Charter which aim at economic development full employment, high standards of living and social progress are very laudable. But, it is not desirable to seek to enforce a uniform code of conduct in regard to fiscal policy and allied matters for such an action will prove detrimental to the interests of industrially backward countries. All such obligations will have to be modified so as to suit the requirements of countries like India which should have freedom to take unilateral action, adopt unqualified protection, encourage national investment etc. The present Commission should advise the Government on these vital questions and approve the final acceptance of the Charter if only it meets with the policy of the large scale industrialisation of India and an all round economic development.

Taxation.

A serious omission in the terms of reference to the Commission is the problem of reducing the burden of taxation on Indian industry and trade. Direct

taxation in India has enormously gone up since 1939 and the rates of taxation on income and super-tax have very much curtailed the margin of savings and consequently capital has not been coming for the further expansion of the existing industries and for the establishment of new industries. Provincial taxation is not conceived in its proper relation to the measures of taxation imposed by the Centre and particularly the sales tax has been proving a great hardship to the industry and trade. It will be in the fitness of things if the present Commission devotes its attention to the most important problem of taxation and makes suitable recommendations to the Government to overhaul the present tax structure.

Foreign Capital.

Questions relating to the role of foreign capital in the development of Indian industries ought to have been included in the terms of reference to the present Commission. This is another serious omission; and a few suggestions are made below in this regard:

It is quite essential for the industrial development of India that foreign capital will be invited to participate in industry along with Indian capital subject to the control and management of the industry being largely vested in Indian hands. Along with foreign capital, technical personnel and plant and machinery which are so vital for the growth of industries in India must be secured in an ample measure. As regards treatment to foreign capital in respect of protection questions relating to remittance of profits abroad etc. and national interests must be kept in view.

MADRAS:
30th *December*, 1949.

J. SATYANARAYANA,
Secretary.

APPENDIX

Table I

Commodity	Production	
	1922-23	1938-39
1. Jute	1187·5 million yds.	1774 million yds.
2. Cotton piecegoods	1713·5 million yds.	4269·3 million yds.
3. Sugar	84,000 tons.	10·4 lakhs tons.
4. Matches	8 lakhs gross.	210 lakhs gross.
5. Paper	23,576 tons.	59,198 tons.
6. Cement	1·93 lakhs tons.	11·70 lakhs tons.
7. Pig iron	4·55 lakhs tons.	15·76 lakhs tons.
8. Steel ingots	1·31 lakhs tons.	9·77 lakhs tons.

Table II

Commodity	Production	
	1939	1948
1. Finished steel	7·81 lakhs tons	8·54 lakhs tons.
2. Cotton yarn	1264 million lbs.	1442 million lbs.
3. Cotton piecegoods	4116 million yds.	4338 million yds.
4. Jute manufactures	11·89 lakhs tons.	10·48 lakhs tons.
5. Paper	13·31 lakhs cwts.	19·95 lakhs cwts.
6. Matches	21·6 million gross.	17·0 million gross.*
7. Sugar	6·95 lakhs tons.	10·0 lakhs tons.*
8. Cement	17·2 lakhs tons.	15·16 lakhs tons.*

*Approximate figures and for Indian Union only.

The Mysore Chamber of Commerce

SECTION A(i)

Questions 1 *to* 8.—The economic position of India since the last Fiscal Commission reported in 1922, has changed materially in all directions and it is necessary that a new approach should be made to consolidate and develop industrial development in the country. From a predominently agricultural economy, characteristic of this country during the twenties, recent years have seen the establishment of a net work of new industries. As the pressure of population has increased, it is necessary that industrialisation which offers a quicker method of raising the standard of living should be accelerated.

Indian agriculture has not made sufficient advance as compared to the industrial progress and it is important that there should be a co-ordinated development of the two spheres of the nation's economy. As a result of partition India is deficient in food crops and is also a net importer of cotton and jute. It is therefore necessary that future measures must provide for self-sufficiency in respect of food production as well as raw materials required for the textile and the jute industries.

India before World War II was essentially an exporter of raw materials including agricultural products. Since the last decade however there is an increasing tendency to make use of agricultural raw materials in the country itself; for example oil and oil seeds.

The policy of discriminating protection followed since 1922 and the general impact of the industrialisation on the country coupled with abnormal war conditions has changed India to the status of an exporter of manufactures. The changes that are needed particularly as regards agriculture would be expansion of collective farming, mechanised cultivation, better seeds, manure and fertilisers. As regards mining it is essential that India should take to processing of minerals in the country itself instead of exporting them outside. It would also be beneficial if the Government can assist the starting of new industries based on utilisation of minerals within the country. Further a comprehensive geological survey should also be made for effecting utilisation of the country's mineral resources.

The pattern of industrial development in India has been mostly on a piecemeal scale and not according to plan. Technical efficiency in certain industries has reached a high level though the country has not developed capacity for manufacturing machinery required for those industries. Some industries like sugar, paper and glass are still to reach a high level of efficiency. Some of the smaller industries started during the war have not been able to consolidate the position to meet foreign competition. Industrial activity has not developed on a proper plan and there is great necessity for raising the quality and quantity of industrial production.

India at present has not developed heavy engineering industries such as shipping, locomotive, automobile, aircraft, engineering, heavy chemicals and agricultural machinery industries on any appreciable scale. Even as regards production in existing industries, the full potential has not been reached. Production costs need to be lowered and the employment of latest types of machinery is required. High grade technical ability is still limited and the efficiency of labour has not reached a high level. Even as regards raw materials, transport bottlenecks and uneconomic methods of production, there is room for great improvement.

The development of small-scale and cottage industries is essential to give stability to country's economy. At present emphasis has been placed only

on large scale production with the result that there is unhealthy concentration of industries near some big cities. A stimulus is needed for diverting energy for revitalising small and cottage industries. These industries are now not properly organised due to lack of capital, understanding and difficulty in securing raw material. It is desirable to follow the system of Japan wherein some of the products used in large scale production could be produced by small-scale and cottage industries. By this method a close liaison could be maintained between these three scores of the country's economy and India has ample scope for all the three.

Cottage industries like mat-weaving, carpet-making, button making and others allied to some of the large-scale industries could be developed. As regards industries suited for export purposes it is suggested that wood-carving, curios, and woollen druggets could be developed. There is also a necessity to start a corporation by which finance could be advanced to individuals for taking to cottage industries. Marketing facilities and suggestions for improvements should also be made available to them easily, while in the case of some others, subsidies could be granted for helping them initially.

SECT ON B

The three conditions laid down by the Fiscal Commission of 1922, have had marked defects particularly as regards the triple formula that was laid down before protection could be granted for an industry. It presupposed that an industry should have all the advantages before it was entitled for protection. In an industrially backward country like India, this formula adversely affected the development of industries particularly when foreign competition and ideas of free trade were freely used to stifle the indigenous industry.

As regards wire and wire nails, when the Indian Wire and Steel Products Co., started production, protection was not given uniformly on the products produced. On the ground that the Company was not able to obtain the raw materials of wire rods from Tatas, the protection duty on wire rods was withdrawn and the Company was obliged to go into liquidation.

The starting of the Locomotive industry was never taken as a serious proposition due partly to the fear that Britain would be affected. Under the plea of economy the starting of a company specifically for this purpose was discouraged in 1924.

Similarly the woollen industry was not encouraged in the earlier years when foreign competition from Italy and Japan was severe during the years 1924-29. Protection to Manganese Chloride industry was not given on the ground that the industry was not of national importance.

Glass industry is another instance which did not receive full protection from the Board on the ground that the Chief raw material—soda ash—was imported. Again when the Tariff Board recommended protection in the year 1932, the report was not released till three years later in 1935 and no attempt was made to encourage local industries for manufacturing soda ash.

It is certainly not possible for every new industry to ensure an easy supply of raw material and to estimate the probable time by which it could stand competition. It was upto Government to take measures that would enable new industries to stabilise themselves over a certain period. As regards industries that have developed as a result of the policy of discriminating protection, there is great need of supplying a large number of technical personnel and trained labour. There has not been sufficient time or scope to introduce technical improvement and to optimum utilisation of indigenous raw material. Industrial research has not made headway and it is necessary to impress upon those protected industries, to devote attention on this aspect.

The impact of the recent World War has brought about a change in the Indian economy due to the fact that the imports practically ceased and India had to manufacture certain products which she formerly imported. India is therefore in a position to develop new industries in addition to existing ones. Heavy industries require to be developed and Government should now make it a point in expediting imports of capital machinery required for those industries. It is not enough if protection is given only to infant industries. A system of protective import duties and subsidies will have to be employed for giving stimulus to Indian industries and to guard against dumping. If certain industries are necessary from the larger point of view the question of cost to the community should not be initially considered. From this point of view the conditions laid down for the Tariff Board of 1945 should be viewed.

Section E

There is now considerable transport difficulty in movement of essential raw materials required for industries. Government should always ensure that essential raw materials are quickly moved and such others as are imported are supplied in time. The supply of cheap electric power is also another necessary factor in stimulating industrial development. There is abundant scope for regionalisation of industries and this should be helped by making available, cheap power all over the country. Development of electric power would in addition conserve the coal resources of the country. Services of foreign technical experts should be secured for training a large number of Indian personnel. There is already a Central Industrial Finance Corporation for financing big industries and starting similar corporations for Provinces and States for helping smaller industries is necessary. The establishment of Export trade research Organisation is necessary to find new markets for Indian products. It would also be helpful if Government were to arrange for technical information about industrial methods and processes on the lines of the Anglo-American Council formed for raising the efficiency of British Industry.

Section F

The Committee is of the view that Imperial preference has adversely affected Indian interests. It is in agreement with the view of Fiscal Commission of 1922, that whatever preference is extended to other countries, it should not diminish the protection required by Indian Industries and it should not involve any appreciable economic loss to the country. Any agreement therefore concluded on the lines of the General Agreement on Tariffs and Trade should be subject to this condition as otherwise under the plea of multilateral trade India would not be able to develop new industries. The Committee welcome the formation of bilateral Trade Agreements as a better method of safeguarding Indian industries.

Section G

Industries receiving protection should be made aware that after the preliminary period required for stabilisation, they should reduce their costs and sell their products at competitive rates. They must also be urged to adopt latest methods of production, give labour a fair deal and maintain a high level of industrial efficiency. Restrictive and monopoly practices should be discouraged and industries must be impressed on the need to maintain economic units. At present standardisation and quality control are not employed on a wide scale and there is great scope for improvement in this direction. It is also necessary that a National Research Laboratory should be set up for undertaking researches in industry on a large scale.

SECTION H

The existing organisation of the Tariff Board is inadequate to cope with the work entailed in implementing the Government's Fiscal Policy. The Tariff Board must be a permanent Body and the members must be eminent people having wide knowledge of economics and industries like the members of the American Tariff Board. The Board should have initiative in conducting enquiries instead of being a subordinate branch of the Government. The Board should have also other powers of considering independently the effect of excise duty on industry, effect of *ad valorem* and specific duties, to investigate questions regarding treatment of Indian products by foreign countries and to investigate complaints regarding formation of monopolies to the detriment of the country. The Board should also watch the effects of Tariff Policy on the cost of living and to study the tariff systems of other countries. The various bilateral trade agreements concluded by Government should first be referred to Tariff Board for opinion. It would also be necessary that the Government should normally accept and implement the Tariff Board's recommendations.

Replies to Part II of the Questionnaire by the Mysore Chamber of Commerce.

The Managing Committee considered at their recent meeting Part II of the questionnaire issued by the Fiscal Commission and welcomed the Havana Charter on Trade and Employment generally as it indicated the latest measure of agreement among the various countries for encouraging multilateral trade. The Committee noted that the Charter recognised the rights of economically backward countries to resort to import restrictions, tariffs, quotas, etc. for safeguarding the interests of their industries. The Committee also felt that it is necessary to emphasise in this connection that the various safeguarding measures should generally be permitted to be used by backward countries for a period of 10 to 15 years.

The Committee feel that the terms and conditions of the Charter regarding foreign capital are in general accord with the policy of the Government of India and note that the settlement of terms for such employment is finally dependent on mutual agreement. The Committee is of the view that sufficient freedom must be given for countries like India to withdraw any concession contemplated under the GATT if it should be found to affect her industries adversely. The Committee is of the opinion that India can join the proposed International Trade Organisation as a founder member and should insist upon the employment of a fair number of her nationals on the staff of the Organisation.

The Committee hopes that Government will bear in mind in future negotiations, that articles for which concessions are given are in the interests of national economy, that they do not relate to products for which protection is likely to be asked in the near future, and that they will not result in excessive loss of revenue. The Committee have further to suggest that the working of these concessions be reviewed every two years and that the list of products for which concessions have already been given should again be reviewed in view of the fact that India's position after the partition has considerably changed in respect of products like raw jute and cotton and other products.

Upper India Chamber of Commerce, Kanpur

Question No. 89.—Yes.

Question No. 90.—Yes. It is considered that adequate scope for the economic development of undeveloped and under-developed countries exists in the provisions of Chapter III of the Charter.

Question No. 91.—Does not arise.

Question No. 92.—The terms and conditions proposed in Article 12 for the employment of foreign capital for development purposes appear to be fairly reasonable in general and, so far as India is concerned, seem to be in accord with the statement on the participation of foreign capital made in Parliament by the Prime Minister on the 12th April 1949.

Question No. 93.—Yes. It is, however, felt that the elaborate procedure for consultation (however inevitable it may be) envisaged in cases where countries are allowed facilities to exercise a certain measure of control over their import trade, whether in the interests of their balance of payments or with the idea of developing any particular branch of indigenous industry or agriculture, might, in practice, by impeding expeditious action, detract to a considerable extent from the value of the facilities granted and may even conceivably render it impossible for the countries concerned to take the particular course of action which alone would safeguard their interests, as is contemplated in this Chapter. This aspect of the matter is bound to have some importance to countries like India whose need for recourse to special measures for the protection of their industries from competition will be greater than that of the highly industrialised members.

Question No. 94.—Does not arise.

Question No. 95.—It is not considered that our acceptance of the obligations imposed on us under the Charter is likely to lead to any adverse effects on our trade and industry particularly in the immediate present when, with our well-known shortage of capital goods and technical skill, we have probably more to gain by freer international trade which would enable us to obtain these items more easily from the industrially advanced countries. Looking at the question from the long range point of view, a definite verdict is, however, somewhat difficult at the present juncture, when we have had little experience of the possible effects of the obligations laid on us under the Charter and, while there can possibly be little difference of opinion in regard to the desirability of international trade being fostered, in general, in every possible manner, the question of India's continued adherence to the Charter will have to be decided in the light of the industrial, agricultural and fiscal policy that she proposes to pursue and the extent which the working of the Charter is found to support that policy.

Question No. 96.—Yes.

Question No. 97.—Does not arise.

Question No. 98.—The Chamber has no special comments to offer either in respect of the structure and functions of the International Trade Organisation or the procedure indicated for its working both of which appear to it to be suitable. As regards item (*c*) in this question it is not clear as to what exactly it is intended to convey by this specific query in relation to India's status and position in the Organisation for, while under the constitution the status of any one member is equal to that of any other and while India has been allotted one of the 8 permanent seats on the Executive Board the actual influence that any country will possess in the way of shaping the activities of the Organisation and of its various subsidiary bodies will obviously depend on its own economic position.

Question No. 99.—Yes.

Question No. 100.—None except that, though the direct and indirect concessions received by India seem to cover all the more important items of her export trade and though the net effect of the reciprocal scheme of concessions seems to be in her favour the position needs to be examined in the light of the consequences that partition has had on the trade of the country.

Question No. 101.—Yes.

Question Nos. 102 *and* 103.—The concessions granted by India as well as those received by her have probably not been in operation for a sufficiently long period to enable a definite view being expressed on their effects on India's economy.

Question No. 104.—As mentioned earlier, sufficient details are not available to enable one to decide how far the working of these concessions has been in the interests of the country's industrial development. Subject to this condition being satisfied the Chamber would support the continuance, beyond 1st January 1951, of the concessions that India has now granted to other countries.

Merchants' Chamber of United Provinces, Kanpur

I am directed by the Council of my Chamber to refer the Fiscal Commission's letter No. 1/Fis/A(5) 49 dated the 25th June, 1949 and to express their views as under.

2. The terms of reference as embodied in the Government of India Commerce Ministry Resolution No. 34-T (37)/48 appear to be wide enough to permit the consideration of related subjects such as the structure and form of taxation, capital formation and its mobility, labour situation and the overall economic potentialities of the country besides matters relating purely to the protection and safeguarding of industries. It is, therefore, felt that answers to the questionnaire may be preceded by certain prefatory remarks relevant to the consideration of the questionnaire itself in its context to the above terms of reference.

3. The essential condition for and paradoxically also the sign of the progress of any nation is its high standard of living without which blessings of physical, material and cultural well-being cannot be secured. Nobody can seriously dispute that available manpower and potential resources in India have not so far been subjected to any scientific exploitation designed to maximise the production of wealth in this country. An alien Government in its perennial desire to safeguard its hold on India for the protection of the economic interests of the nationals that constituted that Government in this country was obviously obliged to shelve the above fundamental condition and sign if that came into conflict with the safeguard so dear to them. The result has been the sacrifice of planned economic development at the alter of lame excuses such as "consumers' place and burden in the scheme of things", "the possibilities for the development of vested interests", "revenue considerations of the State", "the myth of safeguarding agricultural interests", etc. etc.

4. The second World War brought about forced readjustments of the different wheels of our economy and for the most part these readjustments had to be fortuitous and hence unscientific besides being short term in their application and results. Price factor was dismissed out of consideration in the face of the imperative needs of a War-torn World. Inflation came to operate freely and costs and wages appeared to no longer determine either production or distribution. Whenever trouble in acquisition of goods and services by the personnel in the management of armed forces and civil state came to the fore, palliatives in the form of patch work to a constantly deteriorating structure could only be thought of. This patch work lacked even elementary co-ordination. Statutory control over the prices and distribution of essential commodities, regulation of volume and quality through State action, restriction and control of capital issues and the rationing of civil supplies came one upon other in confused succession and were totally un-coordinated. With the plethora of money supplies and the unbridgable break in the chain of demand for and supply of physical goods, money profits increased abnormally resulting in almost

cent. per cent. absorption of incomes and profits by the State through direct taxation. The end of War saw Indian economy completely dislocated though not ruined as in some other countries. The passing of political power completely into Indian hands at such a time naturally necessitated the maintenance of *status quo* in economic affairs for sometime, atleast upto the time of ironing out solutions to outstanding political issues such as partition, merger of States, etc. etc. We thus find that this country has been unfortunately placed by a train of unavoidable circumstances in a situation of having to face enormous economic odds without political freedom being able to act as a corrective to these odds

5. The array of vicious circles at the bottom of India's economic proverty appears possible of being broken for the good of the country only if a frontal attack is made on stepping up production in the country with the existing resources and tackling the problems of unutilised resources successfully. While direct taxes in India are almost as steep and high as those in the most advanced countries of Europe and more unfavourable than in U. S. A. and Canada, there is inexplicable confusion in taxation policies persued by Provincial Governments in the levy of sales and purchase taxes by them without co-ordination at any point. These measures hardly appear to take root on any hard facts of economies. In the buyers' markets, which must obviously ensue, if a fall in prices is aimed at to resuscitate country's economy, these measures not only adversely affect distribution and hence production but also keep at bay any calculated scheme for bringing down the general price level. The octroi and terminal levies imposed by the local authorities, without any consideration of the fact of such levies acting as deterrants to the industrial economy of the locality, further aggravate the difficulties in respect of utilising to the maximum the present productive resources. Capital formation is thus not only left without incentives but the utilisation to the maximum of the existing productive resources also appears wellnigh impossible. The most disquieting feature in any planned or calculated attack upon unutilised resources by Indian capital and enterprise has been the assurance of more than favourable and equitable treatment to foreign capital coming to this country in the face of uncertainty in respect of State regulation and control of industries and the spread of incentives for attracting capital and enterprise in the case of Indian nationals. These pitfalls have to be avoided before any wholesome fiscal policy can be evolved to help the policy achieve its objectives.

6. The impact of War on our economic structure and the serious repercussions of political partition to our economy appear to have upset the normalcy of elements that would otherwise enter into consideration in any fiscal enquiry of the nature now conducted by the Commission. The usual bogey of raw material supplies on an international scale and the myth of agricultural economy as a water-tight compartment in itself have to be given up in favour of revolution in the technique of agricultural and industrial production under the auspices of the State. With the absence now of foreign Government sacrificing Indian interests for the interests of her home country, our Government should be able to set up targets for industrial development with time schedules attached thereto. The above factors obviously call for a vital change in the objective of the fiscal policy to be followed and my Counil therefore believe that the approach of the Fiscal Commission to these problems have to be quite different from the approach made to these problems in the case of Indian Fiscal Commission in 1922.

7. The growth of population during recent years has been alarmingly rapid and the pressure on land is increasing day by day for want of industrial avenues to absorb that growing population. The result has been that agricultural holdings have had to be progressively sub-divided yielding place to under-employment. With the price of agricultural commodities going beyond reasonable

levels and with money obligations of the agriculturists remaining almost stationary, there is, in fact, a recession in physical agricultural production in the face of stepped up consumption of certain agricultural commodities specially foodgrains of non-coarse varieties. The effect of this paradoxical economy has been noticed in significant falls in production and consequent exports of certain principal commercial crops after the War. International trade in raw materials such as cotton—raw and waste, raw jute and oilseeds show a falling tendency and in certain cases the pressure of demand consequent upon internal consumption is so great that production is unable to cope up with the same. The illustrious examples are raw cotton and raw jute. Many of those that had been characterised as cash crops before the War have now ceased to be so. Pressure on food production has not only not insignificantly affected the production of other commercial crops but has also transformed their price structures and quality so as to retard their use by industries profitably in any widespread manner and on an international scale. Political partition of the country has affected major commercial crops such as raw cotton and raw jute and the development of their production atleast to the extent of our industrial requirement is imperative. A case is thus made out for a scientifically planned agricultural economy arriving at a balance, not too rigidly fixed, between food crops and other cash crops of industrial importance. It will be observed that our capacity to export raw materials of Industry derived from land in order to earn foreign moneys that is so much needed now to purchase capital equipment and technical aid has not only been dwindling alarmingly but that in respect of feeding industries in India in certain directions economically we also appear to be up against odds. With national self-sufficiency in agricultural production as our immediate goal, balance in agricultural effort will have to be so adjusted that food produced in this country as well as the principal raw materials of Industry will be sufficient in quality and quantity to meet the steadily expanding internal demand consequent upon better industrialisation and standard of living.

8. It will not be out of place here to call the attention of the Commission to the broad trends in the availability and utilisation of labour so far as industries are concerned. The efficiency of labour in India has always been far below the standards required in industries so as to make industrial products economical from cost and price points of view. While industrial production has almost been stationary after the War, the wage bill has gone up three times its pre-war size, the accretion to employment of labour counted on heads being only 20 per cent. over pre-war figures. In the case of cotton textile industry alone it has been shown that while an average American and English tenter manages 1,368·6 and 912 ring spindles respectively, an Indian tenter is able to manage only 380 ring spindles in India. A proper analysis of labour efficiency in all other industries will reveal the same trends. Even as between provinces labour efficiency varies enormously in a given industry. The labour in U. P.'s jute industry is far less efficient than labour in Bengal's Jute industry, yet the U. P.'s Jute industry is called upon to pay more by way of direct and indirect wages than the Bengal industry. With various ameliorative labour legislations foisted upon the industry without due regard to either the efficiency of labour or the capacity of the industry to bear the burden and with the lossening of the hold of the entrepreneur or the employer on labour, go-slow tactics and indiscipline ensue beyond the capacity of the management to control. Legislation to secure social benefits and security of employment must ordinarily succeed the stability and prosperity of industries and should not precede the economic development of industries. What is applicable to advanced industrial countries cannot be made applicable to an industrial infant.

9. A well planned Governmental action with a system of extensive and calculated protection cause the creation and augmentation of those important elements of productive power such as industrial technique, organised system of

transport, banking and capital formation, communication, trade connections, captains of industry well equipped with the psychology of enterprise and go-ahead mentality, efficient labour supply and last but not the least an increasingly better standard of living and consumption power. Even a cursory glance at the history of any industrialised Western nation would indicate how effectively an extensive policy of protection had been used. While recognising the need for such an outlook, the Indian Fiscal Commission of 1922 recommended a halting policy of discriminating protection too restrictive in its scope and application. The concepts of 'infant industry', 'raw material supplies', 'concentration on the manufacture of simpler forms of goods' etc. etc. shut out from the consideration of the issues of the broader aspects of protection and the examination of the development of cotton and jute industries in the U. K. and the rubber and pencil industries in America and like industries in other parts of the world. With India politically free, the present enquiry should be broadbased on ways and means calculated to augment and sustain elements of productive power enumerated above, of course consistent with our basic needs for international contacts and trade.

10. In order to promote all round improvement and in the first place to meet our essential requirements, the following industries would require to be promoted:—

Defence Industries:

(i) Fire arms (land, air and marine) and their parts.

(ii) Munitions, cartridges, explosives, shells, torpedoes, etc.

(iii) Tanks and armoured cars and other forms of mechanical equipment especially designed for military purposes.

(iv) Warships of all types including submarines.

(v) Military air-craft of all kinds.

(vi) Gases for warfare and gas-masks.

Note:—Warships and military air-crafts can also be made in ordinary peace time establishments, etc. etc.

Key Industries:

(i) Power—Hydro and thermal (generator).

(ii) Fuel, coal and fuel wood, mineral oil, power alcohol, natural gases.

(iii) Metals, ferrous and important non-ferrous, including winning of ore for them.

(iv) Industries for the making of machine tools.

(v) Industries for the making of machinery and machinery parts.

(vi) Heavy engineering industries for the building of ships, locomotives, wagons, automobiles, air-craft and the like (vital).

(vii) Instruments and apparatus—commercial, industrial and scientific (standards).

(viii) Chemicals, heavy chemicals, fine chemicals including dyes (some vital), fertilisers and refractories etc. etc.

Public utilities:

(i) Distribution of electricity, gas and other forms of energy.

(ii) Public transport and communication services.

(iii) Water supply.

(iv) Sanitation etc. etc.

Consumer Goods Industries:

(i) Cotton and Woollen textiles.
(ii) Silk and Silk manufactures.
(iii) Jute textiles and manufactures.
(iv) Sugar.
(v) Matches.
(vi) Bicycles and automobiles.
(vii) Motor vehicles battery.
(viii) Glass.
(ix) Vegetable oils.
(x) Paints and varnishes.
(xi) Hairs, Fibre, coir.
(xii) Wood.
(xiii) Cutlery, hardware and other metal utilities.
(xiv) Ceramics, earthern and china ware.
(xv) Toilet articles.
(xvi) Provisions such as gelatine.
(xvii) Biscuits and tobacco etc. etc.
(xviii) Leather manufactures.
(xix) Rubber manufactures
(xx) Paper and Strawboard.
(xxi) Stationery including pencils, nibs, etc.
(xxii) Plastics.
(xxiii) Office appliances.
(xxiv) Wax.
(xxv) Toys and other games and sports, etc. etc.

Services:

(i) Shipping.
(ii) Banking and Insurance.
(iii) Distribution trade, etc. etc.

11. While agricultural planning and production must be closely related to our industrial needs we should cease to depend for our food upon any foreign country in any shape or form. Much can be done to improve the standard of living of the masses in India by relieving pressure on land yet keeping them on their respective native spots if the factor of the location of industries is carefully gone into and a planned regional development is aimed at. Adverse political and fiscal repercussions that may be brought about by the psychosis of the Provincial and State autonomy must be nipped at the very bud, if development on the above lines is envisaged. If the scheme of things could be fixed on above lines, reorganisation of our agriculture and forest development and a calculated exploitation of our mineral resources should not be difficult.

12. Mineral resources of the country are in the nature of wasting assets and in the exploitation of these resources which form in most cases the base for industrialisation chalked out in the foregoing paragraph due caution must be employed so as to allow conservation and most prudent utilisation thereof. While we may have a limited quantity as exportable surpluses in certain directions, we will find ourselves pitifully self-sufficient in the majority of available

items in the country. Besides strategic minerals such as copper, silver, tungsten, zinc, tin, platinum, sulphur, mercurry graphite etc. etc. our country has to look to imports and we have to have permanent *quid proquo* arrangements to obtain them without scarcity. Prices of the minerals we produce and the minerals we have to pay for have to be constantly kept under vigil and our exportable surpluses must be so arranged as to result in our perennial acquisition of scarce minerals. Our policy in respect of minerals must be one of caution and complete control in the context of our industrial development.

13. Fuel and power, by far the most important items contributing the industrial development, can be developed to meet the requirements of India without dependence on others. Reports of the Planning Advisory Board and the Coalfields Committee indicate that almost all of what we require in the form of coal can be made available if some measures calculated to that end are adopted. Water-power resources and hydro-electric possibilities are immense and plentiful supply of power is assured for industrial development on an extensive scale.

14. With regard to the location of industries in the context of above discussion, it will be profitable to examine the analysis made on the subject by the National Planning Committee. Their report on manufacturing industries says: "The following appear to be some of the principal causes of the large, small, and cottage scale and agricultural industries, not being widely spread over in the rural areas:

1. Lack of all-weather rail, road, and water transport.
2. Cost of transport and in some item additional cost of packing.
3. Unavailability of—
   (a) Power from a public supply at cheap rate,
   (b) Trained and semi-trained workers,
   (c) Artisans for specialised work such as mechanists, electricians, tinmen, carpenters, blacksmiths, welders, masons and others,
   (d) Certain raw and other materials, stores etc.
   (e) Ready purchasers of products.
4. Unavailability of essential—
   (a) Services, such as medical, education, postal, telegraphic etc.
   (b) Amenities of life.
   (c) Necessities, such as vegetables, fruits, clothing, newspapers and certain consumption goods.

If difficulties arising out of 1 and 2 above can be overcome and power is made available at a cheap rate and medical, educational and other essential services are provided within a reasonable distance in rural areas, then with proper planning in respect of location, licensing and certain measures of protection from undue competition, there would be a wide spread-over of industries."

15. Each of the principal objectives of the plan, *viz.* provision of employment, increase in *per capita* income, equitable distribution of profit, healthy life and surroundings, and putting within the means and therefore reach of the largest number of the entire community, necessities of civilised life at low prices, can only be reached in a large agricultural country like India by a wide spread-over of all industries, small and large, in rural areas. The following suggestions are made with a view to provide for the largest spread-over of cottage, small scale and large scale industries in rural areas. The feasibility and economics of such measures require to be examined by an expert Committee.

"(i) Prevention, by legislation and regulations, of some of the processes carried on in urban areas, such as making of flour, oil pressing by hand or bullock *ghannies*, bakeries, leather tanning, manufacture of wooden and leather goods by hand and factory for sale as finished and ready made, bone crushing, glue making industry and many others. The advantage will be that all these process will be done in villages. By-products will also be available in villages. Finished products ought to take less freight in weight than in raw. Wages and cost of living being lower in rural areas than in urban areas, cost of manufacture will go down. Cities will not be congested and those employed in industry will live in healthy rural areas.

(ii) Pooling of rates so as to keep the same freight to natural consumption centres. The freight rate should include freight to railway or port.

At present, even though not scientifically fixed, industrial centres are mostly on railway lines or at ports. This is for cheap freight both for incoming goods for manufacture and outgoing products. If, as suggested above, freight is pooled, then there would also be other advantages in locating industries in rural areas In order to prevent unnecessary carrying cost both to the State and consumer, equalisation of freight should apply within certain regions, and not throughout India. This would indirectly assist local raw materials being made available wherever possible, and finished products being made available and distributed respectively within the shortest and the most economic near localities "

16. It is recommended that in the matter of location of industries, the claims of the industrially backward areas should be given special consideration, subject to economic considerations justifying them. As regards the size of the units, no unit should be so large as to be outside the reach of competition by smaller but economic units. Units smaller than the economic units should not ordinarily be allowed to be started except for experimental purposes. The size of the economic unit will be decided in the case of each industry by a qualified authority.

17. Small scale and cottage industries are capable of providing in a country like India with its shortages in the face of its potential resources, a significant amount of our requirements in regard to our consumption. The second World War showed clearly that how even for requirements of strategic importance cottage industry had to be depended upon. Besides the above possibility, under employment of the rural masses consequent upon seasonal nature of agricultural work and pressure on land beyond its capacity of absorb stresses the important role the cottage industries have to play in the national economy. The very nature and limitations to size of cottage industrial activities, immense possibilities for widespread power supplies in rural areas through schemes of hydro-electric power development and the dependence of small scale and cottage industries on large scale industries as auxiliaries thereof, hardly lend room for any supposition that the interests of cottage industries are antagonistic to large scale industries. On the other hand by a judicious adjustment it should be possible to make the inter-dependence of large scale industries, small-scale and cottage industries and consumers' demand for goods and services so close and inseparable as to allow the exploitation of maximum potentialities in wealth-production on all sides. Protection given to large scale industry has not adversely affected any small scale or cottage industry so far anywhere. The case of handloom weaving if taken as a solitary example to prove the non-existent factor, it can be shown in ultimate analysis that the entire argument is based on wrong premises.

18. Small scale and cottage industries are capable of being divided in three main categories (i) purely as subsidiary to agriculture to solve under-employment of rural masses consequent upon seasonal character of agriculture, (ii) full time occupation in small scale industrial activities for a section of the rural population so as to make the village community on the whole prosperous and to relieve irresistable pressure on land now noticed, (iii) cottage industries as independent units of production requiring considerable technical skill and training and of a specialised character. The latter two categories of small scale industries can be developed as supplementaries to large scale industries. In the consideration of the regional distribution of industries and location thereof productive effort could be so apportioned with considerable accuracy as to allow for the legitimate expansion of both the large scale and cottage industries without any one coming into economic conflict with the other and to result in utmost contribution to national well-being.

19. Cottage and small industries such as curry powders, *papar*, pickles, spice-combinations on the food line, cotton and silk embroidery, gold and silver embroidery, chicken cloth manufacture, art printing and dyeing on the apparel line, carpets of woollen silk and mixed varieties, coir and coir products, hand-made carved and inlaid wood-work, ivory work, brass-ware on the furnishing line offer immense scope for earning foreign exchange for indefinite length of time provided standards of quality and workmanship are maintained and the business ethics of people handling these products is vastly transformed to conform to truth and goodwill. Under the present circumstances of foreign exchange, shortage in India we are pitifully doing nothing to exploit this source simply because we lack determination to bring about the necessary coordination in activities leading to production of these goods on an All-India basis and to arrange for an effective marketing of these products. Sales promotion of these products under the care of our Trade Commissioners abroad and a systematic exploitation of the prospects offered for the consumption of these products abroad are bound to result in the emergence of scope for special trade agreements for these lines with foreign countries. An All-India co-operative marketing organisation with requisite skill and business experience should form the clearing house for exports of the above articles. This marketing organisation may develop under its aegis a research body well-equipped to meet problems created by either taste and fashion or change in the economy of our customers so as to advise the different Provincial Governments on the nature and form of change in the production of above wares from time to time.

20. If cottage industries in Indian have not thrived to the extent they ought to have, it is not solely because of the development of large scale industries and competition from them but because of lack of diffusion of technical knowledge pertaining to these industries on the one hand and the absence of balanced co-ordination of large scale industries to small-scale industries in the mutual exchange of the requirements of both. Other impediments in the way of development of cottage and small industries have hereto been the prohibitive transport charges, lack of finance and organisation to aid the cottage industries acquiring their raw materials and sinews of production, bad marketing, local taxation such as octroi and terminal charges and the lack of adequate power. In order to obviate the production of numerous suitable goods on cottage and small industry basis, rural banking should be developed to be taken advantage of by co-operative bodies in not only arranging for the supply of requisite raw materials and production plants but also for marketing most favourably the finished products coming therefrom. A Board in each Province to supervise the above activities and to co-ordinate large scale industrial effort with small scale industries must be set up, all these

boards being federated into a Central organisation for the whole of India as envisaged earlier.

21. The foregoing analysis of our economic front amply brings home the fact that unless India is industrialised vastly and in such a manner so as to divert more than 50 per cent. of its able-bodied population to occupations other than pure agriculture, chronic poverty in the midst of latent plenty cannot be tackled successfully. India has always a large potential market for every industry. Poverty has, however, obstructed the exploitation thereof. Poverty cannot be warded off unless the standard of life rises and the standard of life cannot rise unless increased productive efficiency is fully operated in all directions. The development of one industry leads to the growth of other industries and the exploitation of productive efficiency. "Infant Industry" and "absence of market" arguments are riddles in the nature of lame excuses to deny positive action calculated to step-up the overall wealth of the country. The practice of considering market for each industry separately as if mass consumption is watertight and confined, is not only deplorable but is also to theorise on facts that hardly ever exist.

22. The stipulation by the Indian Fiscal Commission 1922 of the triple formula for seeking protection not only vitiates the doctrine of protection itself but carries with it serious flaws. The three conditions laid down are virtually not only inconsistent but incompatible also. The growth of anyone industry depends upon the growth of other industries and to say that a particular industry does not possess "natural advantages" is to blind ourselves to the above essential requirement. As an example, glass industry in India can thrive absolutely if it possesses the natural advantages of a developed soda ash industry but the soda ash industry cannot flourish unless there was glass industry to absorb its products. Another example is of pig iron and steel. In most instances raw material supplies are obtained by European industries from vast distances and the only natural advantages these industries can claim are skill and power resources. By regorously imposing "natural advantage" formula, the overall development of industries have had to be shelved. There is no perfect industry anywhere in the world which possesses all the natural advantages before exploitation of the same can be thought of. It is to the concept of "comparative advantages" that the Fiscal Commission must have given more attention than to absolute "natural advantages". Conditions of large home markets and cheap power have already been discussed in the preceding paragraphs. The second condition that the growth of industry concerned must be impossible without protection is obviously inconsistent with the first condition discussed. The element of doubt has to be established to deserve protection. Then again the third condition that the protective industry must ultimately manage without protection, engenders a forecast of shape of things to come and takes for granted that cost, wage and price structures will always be constant in a changing world. The conditions laid down by Fiscal Commission would, therefore, appear not only contradicting themselves but being at variance with each other. The triple formula envisaged by the India Fiscal Commission 1922 will therefore appear to be a most misleading recipe absolutely pragmatic in character and this formula has done more harm than good to the Indian struggling industries.

23. With the application of the above unworkable formula enquiries were caused to be conducted by the Tariff Board in a hidebound and restricted manner. In order to cause even these enquiries, the dilatory procedure of having to

apply to Commerce Department had to be taken recourse. On an analysis of these enquiries upto 1938 the following interesting results are revealed.

Tabulation of enquiries

Class	Tariff Board's action	Government's action	Number
A	Tariff Board recommended protection by duties or bounties.	Government accepted .	25
B	Tariff Board recommended protection by duties or bounties.	Government modified proposals.	11
C	Tariff Board recommended protection by duties or bounties.	Government rejected T. B.'s proposals	6
D	Tariff Board rejected claim to protection.	Government accepted T. B.'s proposals.	7
E	Tariff Board rejected claim to protection.	Government intervened .	0

In class A, *i.e.*, in the industries whose applications were accepted both by the Board as well as by the Government were steel (4 enquiries), Plywood and Tea Chests, Sugar (1 enquiry), Sulpher (tariff equality), Printer's Ink (tariff equality), Wagon building (Matches), Paper (1 technical, 1 substantive), Cotton (1 anti-dumping, 1 substantive and 1 reduction of duty), Salt, Magnesium Chloride (2 enquiries), Gold Thread, Wire and Wire Nails, Removal of revenue duty on Pig Iron, Steel rails and Tariff Equality (3 enquiries into other industries). **Thus out of a total of 25 enquiries, that were approved of by the Government only about 13 enquiries were in connection with substantive protection and out of these again only 5 related to major or important industries.** Many enquiries for tariff equality and technical changes fell in this group. In class B, *i.e.*, where the Board recommended protection but the Government modified the proposals, are comprised Paper (2 substantive), Steel (1 anti-dumping and 2 substantive), Shipbuilding, Electric Wire and Cables (tariff equality), Sericulture, Sugar other Tariff Equality (2 enquiries). Thus important enquiries like those for Steel, Sugar, Sericulture and Paper went through the nibbling process of the Government.

In class C, *i.e.*, where the Board recommended protection but the Government rejected the Boord's proposals, we have seven enquiries including Cement, Cotton (1 anti-dumping), Heavy Chemicals, Glass, Sericulture and the Woollen Industry (in the former case, Report was shelved in 1940).

In class D, *i.e.*, where the Board rejected claims to protection and the Government agreed with the Board, we have six industries, including Magnesium Chloride, Spelter (technical), Wire and Wire Nails, Coal, Oil, Electric Wires and Cables (substantive) and Shuttles (tariff equality).

In Class E, *i.e.*, where the Boord rejected an application for protection and the Government intervened in the interests of the industry, we have no industry at all. This fact is rather significant.

24. A survey of the working of discriminating protection as envisaged by Fiscal Commission 1922 and the Legislative Assembly Resolution of 1923 on this very subject leads one to the irresistable conclusion that clash of interests behind scenes and calculated antipathy towards fuller and freer development of basic industries resulted more in safeguarding duties than in developmental protection. The cause of industrialisation was cast to winds unceremoniously

25. A close study of the "Review of the work of the Indian Tariff Board since its constitution in November 1945" reveals that, at long last, as a result of the experience gained during World War II, the necessity for liberalising conditions of protection in order to step up at least industries from strategic and defence points of view dawned on the powers that be though it is yet to be realised that more than liberalising conditions of protection, it is necessary to liberalise the spirit in which the problems of protection are approached. Fiscal policy of the future must be so framed as to stimulate rapid industrialisation of the country on one hand and export trade in semi-manufactured and manufactured goods on the other. Appropriate tariff measures and other forms of direct assistance calculated to prevent unfair competition and to promote fully the country's resources must be capable of being adopted on a sufficiently elastic and liberal basis. The ideas on State trading and regulation of industries except in case of purely defence industries and public utilities must be given up. Obligations to maintain wage and labour standards trained technical personnel on State nomination, bring about progressively a reduction in costs and overheads undertake research with a view to improve technology and to devise new and economic methods of production, avoid waste in any shape or form and assist auxiliary industries could be profitably imposed on protected industries.

26. Non-Fiscal measures such as initial loan finance from Government controlled financing corporations or agencies, railway rates adjustments and concessions, conservation by legislation of essential raw materials, power and fuel control and their rationed supplies to industries on utmost favourable terms and the procurement of technical personnel must be capable of being determined for allocation to any applying industry after due examination of the cases by the body that might be entrusted with the task of ascertaining protection and fiscal aid.

27. In order to determine the manner and quantum of protection and the extent of non-fiscal aid as detailed above and to supervise the appropriate use of State aid rendered to any industry, a permanent Tariff Commission composed of not more than five members, two from industries, one from agricultural and primary occupations and two from Government representing finance and commerce ministries should be constituted with a Secretariat of trained economists and businessmen with practical leanings. Better still it will be to constitute a separate economic civil service to work in the secretariat of this Commission. The present system of having apply to Government for protection must be replaced by free allowance and right to make applications to the Commission direct and the Commission should be able to enquire into cases referred to them besides those taken up by them of their own volition within a certain time limit and to make recommendations to the Government. A time limit of three months should be fixed for Government to decide upon their line of action in respect of any enquiry made by the Commission and report submitted thereafter. The terms of office of the members of the Commission should be five years.

28. I am directed to state that in so far as part I of the questionnaire is concerned the above are the tentative views of my Chamber on certain principal issues raised therein, and I have been asked to forward these views to the Commission before the delegation from the Chamber are examined orally by the Commission. Detailed answers to every question in Part I of the questionnaire is still under construction for submission to the Commission and those will be placed before the Commission by the close of this year. In respect of Part II of the questionnaire the answers already forwarded to the Commission through the Federation of Indian Chambers of Commerce and Industry are enclosed herewith.

Enclosure to letter No. 4873-49/*F*.26, *dated the* 18*th November*, 1949

From

J. V. Krishnan Esqr., M.A., B.Com.,

Secretary, Merchants' Chamber of U.P., Kanpur.

To

The Member-Secretary, Fiscal Commission,
Ministry of Commerce, Government of India, New Delhi.

Dear Sir,

I am directed by the Council of my Chamber to acknowledge receipt of your letter No. 1-Fis/A(5)/49, dated the 25th June, 1949 regarding the questionnaire issued by the Commission and to say that after thoroughly going through the Commission's questionnaire in two parts, they find that any attempt to **answer the questionnaire separately in two parts may and will lead to the isolationist consideration of the different issues involved in the terms of reference of the Ministry of Commerce, Government of India as per their resolution** No. 34-T(37)/48, dated the 20th April, 1949 and that it therefore appears neither fair from the point of view those answering the questionnaire nor from the point of view of the Commission's wholesome consideration of the issues involved. Specific answers to questions under Part II clearly involve certain fundamentals raised by questions in the questionnaire in Part I and that Part I and II are greatly interdependent. In spite of the economic potentialities and population of India we lack modern industries even upto the standard of our exploited potentialities and man-power. This is because there is today the absence of industrial atmosphere. We have now a Government which understands its people and which is really and rightfully expected to function for its people's welfare and which in the opinion of the Council is making every effort to teach our nationals here better ways of earning a living. The confidence that a paternal Government of the type we now have, should fully inspire amongst businessmen and industrialists of this country, would be found most valuable in the case of India. This confidence must of course be backed by a determined policy in support of a rapid and comprehensive industrialisation. This again would mean an all out effort and a go-ahead policy of generous protection rather than cautious nibbling at the policy of protection to subserve our international commitments both patent and latent. We have seen that during the last half a century our subservience to the imperialistic interests of the United Kingdom had kept us all starving while Japan our neighbour with not a third of the potential resources as we have, could steal over us a march of two generations in respect of the operation of modern industries.

My Chamber fully recognises the fact that the ratification of the Havana Charter is looming large on the horizon as an immediate international issue and on this account we are obliged to expedite consideration of that question earlier than the other issues referred to the Fiscal Commission by Government. But at the same time we wonder if we cannot play for time to a little more to determine our attitude in a more wholesome manner and secure for us that insurance of a secured seat in the international Trade Organisation as has been conceded to the U.S.S.R.

Subject to the foregoing remarks and reserving a right to vary their answers on the complete consideration of the entire questionnaire, the Council are to communicate the following tentative answers of theirs to the questions raised in Part II of your questionnaire. The Council further direct me to point out that these answers could not be weighed by them in terms of statistics they have been so far collecting to answer your questionnaire in full.

89. Yes.

90. Yes.

91. Does not arise.

92. In so far as Article 12 of the Charter broadly concurs with our Hon'ble Prime Minister's statement in the Parliament on the 6th April, 1949, my Chamber considers that the terms and conditions of the Charter for continued employment of existing foreign capital is broadly in conformity with the requirements of India.

With regard to new foreign investments, the position in respect of their ultimate liquidation as and when the necessity may arise in the interests of nationals of this country in any future date must be made clear and shall become reimbursable in this country's currency only.

93. While my Chamber is in agreement with the broad lines as stated in Chapter IV of the Havana Charter, they feel some more time is required to judge the effect of the working of tariff concessions and preferences granted and acquired so far and that a complete answer to this question could be provided only in the background of the answers given to certain questions in Part I of the questionnaire.

94. This can be answered only when answers to Part I of the Questionnaire can be completed and this issue is considered in the light of those answers.

95. My Chamber anticipates no injurious effects to our trade and industry on account of the country's acceptance of the obligation of the Charter in the short period placed as we are in respect of technical skill and research and capital goods. But the repercussions of our acceptance of the obligations under the Charter over a long period cannot be judged now unless we had a clear picture of the industrial policy that our Government is going to follow ahead and in terms of the recommendations of the Fiscal Commission. Placed as our economy today is, long range commitment in the matter of international trade and tariffs must not be risked now unless the advantages to be secured from such commitments will be in the order of stepping up our average standard of living within the next 10 years to that of Great Britain before the War.

96. Yes.

97. The point does not arise in view of the answer to Question 96.

98. While my Chamber agrees with the structure and functions of the International Trade Organisation as provided for in the Havana Charter as well as with the broad basis of procedure laid down for its working, India's position and status in the International Trade Organisation is not as it ought to be. Since one of the aim of the Charter is to develop trade and employment in under-developed countries and since India has admittedly great potentialities for development in respect of materials and man-power, the status and position given to India in the International Trade Organisation in terms of business in international field in 1938 does not appear justifiable. With a population of 400 millions and great potentialities for development and owing to the fact that India had been subservient to the imperialistic interests of Britain without having been allowed to decide its destiny, the basis for the determination of India's position and status in the proposed International Trade Organisation should be not only the 1938 basis of India's participation in the international trade but also of India's population and potential resources.

99. Yes.

100. It is still premature to attempt to answer this question in any detail because the effects of concessions have to be watched more closely over a longer period than for nine months.

101. Yes.

102. It is still premature to attempt to answer this question in any detail because the effects of concessions have to be watched closely for a longer period than for nine months. Factors such as sellers market speculative trading inflationary trends both international and internal etc., had their own influence and concessions have to be judged without and not with these factors. With the partition of India, India had lost most of its export trade in jute, jute goods and raw cotton and concessions granted by India to other countries call for revision in the light of the needs of this country in the matter of raw cotton itself as well as in the matter of the development of raw jute production to feed the home industry.

103. The statistical information and material provided by the Government in this country is so poor and untimely that any proper judgment on question No. 103 could not be made at this stage.

104. My Chamber would not favour the continuance of the tariff concessions granted beyond January 1, 1951. My Chamber would like to wait the deliberations and report of the Fiscal Commission in respect of matters impinging on industrial development of India as well as on matters connected with the protection of industries in India and then will be able to give any definite answer to any question of this nature.

The foregoing answers to Part II of the questionnaire are tentative and are submitted in hurry in view of your requirement as specified in para. 6 of your letter. My Chamber expects that the Commission will impress upon the Government of India the necessity for giving some more time to receive answers to the questionnaire in both parts simultaneously and at one and the same time. Should this happen and should Government of India agree to the recommendations of the Commission in respect of this matter, we shall be only pleased to go through this subject once again and shall be prepared to have the entire matter reconsidered by practical businessmen and industrialists of standing in this part of India before final answers are ironed out.

Railway Rates

The position at present regarding goods freight rates over Railways is that "Flat Class Rates" still continues to operate, however, on a uniform basis with six schedules for telescopic rate for full wagon loads. This has presumably been done in order to guage the results of experiments in telescopic rates before a comprehensive "telescopic class rates" could be determined.

Discuss:

(a) Historical background of rates policy,

(b) Port rates with examples.

Opinion.—With the rapid expansion of industrial and manufacturing activity in the country, railways are facing rates problems of a fundamentally different character. Domestic production is gradually replacing imports of many classes of commodities and this is proved by the statistics of the volume of imports and domestic manufacture during the last twenty years, which disclose a pronounced decrease under the former and an equally pronounced increase under the latter. Imports of iron and steel, yarn, sugar, matches, soap, cement, cigarettes and tobacco—to mention a few items—record a substantial decline, while manufacture under these heads in India has advanced considerably. The economic transition to the present stage of home production has caught the

railways also. Tariff schedules based on long leads of traffic in connection with raw materials moving to the ports at low rates and manufactured goods bearing relatively higher freight charges from the ports have to be readjusted to what appears to be an opposite situation. The establishment of a new industry affects the flow of exports by domestic utilisation of raw material and the imports by the substitution of the home product. Long leads are being displaced by short leads.

U.P. Chamber of Commerce, Kanpur

The terms of reference as stated in the Resolution No.34-T(37)-48 require the Fiscal Commission to examine and review the working of the existing policy of the Government of India with regard to protection to industries since 1922. The Commission is also to examine the question of commonwealth preferences and their effects on Indian trade as well as the desirability or otherwise to undertake international obligations of the type implicit in the General Agreements on Tariffs and Trade and the Havana Charter of the International Trade Organization. The Commission is required to make recommendations as to the future policy which Government should adopt in regard to protection to and assistance of industries having due regard to the short term and long term aspects of the problem and the machinery required to implement the policy formulated for the purpose.

The terms of reference are wide enough to include the consideration of such vital subjects as the effect of existing structure and form of taxation, place of foreign capital, capital formation and its availability, labour situation and economic potentialities of the country in general.

The taxation policy of the Government has a direct bearing upon any scheme of rapid industrialisation and the success or otherwise of any fiscal policy will largely depend on the adjustment of tax structure to the requirements of the industrial programme. Our present tax structure is heavily pressing on our industries and has reduced margins of savings and the flow of investment capital. It has sapped all initiative and business enterprise and has contributed in a large measure, among other factors, to the industrial stagnation and recession in business activities which are witnessed today. On account of the low profit margins as a result of steep direct taxation, capital for industrial and commercial projects is not readily forthcoming however sound they may be. It means there is little scope for capital formation in the country at present although the need for the maximum amount of capital formation is very great at present as the country is economically backward. Further, the indirect taxes imposed by the Provinces and States are heavy burdens on industry. There is no co-ordination of the policies pursued by the Central and Provincial Governments. The sales tax and purchase tax imposed by the different Provinces have been to a large extent responsible for checking inter-provincial trade. Similarly, the Octroi and terminal duties imposed by the local authorities have their own share in taxing industry. It is, therefore, very important that the system of taxation must be examined in all its aspects in relation to the objectives of the fiscal policy that may be evolved. There should be proper co-ordination between the Central, Provincial and local spheres of taxation.

In enunciating the long-term fiscal policy of the country, the place of foreign capital in the industrial set-up of the country must be thoroughly examined. It is no doubt true that the country requires large capital resources for implementing the various nation-building programmes of reconstruction and recovery and the tapping of unutilised resources. It seems inevitable that we have to import foreign capital which will bring with it also the requisite technical personnel and know-how and will also facilitate availability of capital goods

and equipment but it is necessary to safeguard the national interest by providing that major interest in ownership and the factory control should always be in Indian hands. This very issue has been raised by the Tariff Boards in their examination of the claims of various industries for protection. The industries which are established by nationals of other countries should be called upon to alter their constitution so as to vest the majority of share capital and control in Indian hands within a reasonable time. They should also provide opportunities for the technical training of nationals and to provide profitable employment for national capital and labour. The terms and conditions on which foreign concerns should be allowed to be established in the country should be in keeping with the statement of Industrial Policy, *i.e.*, the major interest in ownership and control should be in Indian hands. The issues raised above are of great significance in the context of our industrial policy and will have to be carefully examined before an appropriate fiscal policy is formulated.

It is necessary to make preliminary observations on the nature and working of the policy of discriminating protection and the need for a complete orientation in our fiscal policy calculated to encourage and promote rapid industrialisation to the fullest possible extent. The policy of discriminating protection has proved to be slow and ineffective and was not appropriate to meet the requirements of industrial development of an under-developed and agricultural country like India. It is no doubt true that some industries have received protection at various stages, but during nearly twenty years of the operation of the policy, only few industries have developed or established under protective tariffs. If a more liberal and vigorous policy were pursued, India would have achieved her industrialisation at a much faster pace and would not have been found unprepared on the eve of the second world war. In fact, some of the industries were developed and stabilised during this period owing to the rising nationalist sentiment and the initiative of the Indian industrialists. The policy of protection was halting and half-hearted and was essentially of a safeguarding type. No basic or key industry has been established and certain industries like glass, cement, heavy chemicals were denied protection. The protection granted has been piecemeal and of a restricted type. Several defects have also been found in the machinery, procedure and formalities connected with the implementation of the policy of discriminating protection. It was an integral part of the scheme to establish a competent and impartial Tariff Board. According to the recommendations of the Fiscal Commission of 1922, the Board was to be a permanent body. In course of time the Tariff Board became an *ad hoc* body and it became difficult to secure a consistency in decisions and continuity of policy. The powers and functions of the Board were not defined in a statutory manner and were strictly limited. The Board had no initiative and could only investigate those industries which were referred to it by the Government. There has been a good deal of interference on the part of Government in the procedure adopted for considering applications for protection. Certain applications were rejected without referring them to the Board. Thus, there is a great need for a fresh approach to the urgent problem of all-round industrial and economic development. The policy in force at present has failed to promote the cause of Indian industrialisation and the principles laid down by the Fiscal Commission in 1922 need complete overhauling and should be restarted to suit the needs and requirements of our industrial and economic development. At the time of formulating such a policy, it is necessary to take into consideration important factors such as the effects of war on our economic structure and the serious repercussions of partition on our country. The partition has seriously affected the textile and jute industry in respect of the supply of raw materials and the country instead of being an exporter of these raw materials, is now reduced to the position of an importer. Their production at least to the extent of our industrial requirements is imperative.

Pressure of food production is also bound to effect the production of other commercial crops. It is thus necessary to have a planned agricultural economy arriving at a balance between food crops and other cash crops of industrial importance.

The devaluation of the rupee is also an important factor to be considered to estimate the nature and volume of the foreign trade of the country. The fiscal policy of the future should not merely be an instrument of industrial policy but must be viewed as an integral part of the larger economic policy as a whole. The Tariff Board should be a permanent body vested with wide powers and functions. It may be authorised to undertake an investigation on its own initiative in respect of the conditions of a given industry and its specific problems. Further, it may be empowered to review from time to time the working of protected industries and report to Government the progress made by such industries.

PART I

SECTION A(I)

Introductory—Changes in the economic background since 1922-23:

Various factors have affected the economic structure of the country since 1922. The first main factor which influenced the economic background was the depression in 1931 which affected the country which passed through the severest depression and in spite of the industrial potentiality there has been little industrialisation. The country has remained mainly agricultural and there have been some changes in the industrial sector in respect of a few of our main industries as cotton textile, jute manufactures, paper, sugar, cement, matches etc. The Government's policy of protection has played a very small part in contributing to the development of any industry. Another important factor that has influenced the economy of the country in the inter-war period was that of the national struggle for attaining political freedom. Now that the country is no longer under the rule of a foreign Government which sacrificed national interests, the country is quite free to shape her economic policies according to the needs and requirements of the nation with due regard to the potentialities in resources and limitations. Further, the partition of the country has also affected the economy in respect of resources,—agricultural and industrial—necessitating a review of the fiscal policy.

The principal changes in our agricultural situation in respect of production, consumption and international trade are:—

(1) In the food sector of the agricultural economy there has been deterioration. The country had to import large quantities of food to feed the growing population.

(2) There has been restriction in acreage under commercial crops due to the priority given to the production of food crops by the various legislative measures of the provinces. In respect of consumption it is rather difficult to indicate any specific change in view of the complete lack of statistical data. However, it may be observed that on account of controls and rationing as well as the war-time conditions and increase in money incomes, there has been an increase in the demand for consumption of food products by the population as well as raw materials by industries.

In respect of international trade in agricultural commodities, there has been a significant change in the traditional pattern of our trade which consisted of exports of primary products and raw materials and import of manufactured products. On account of the war-time requirements as well as the pressure on demands for internal consumption, the revised policy of the

Government to preserve the use of raw materials and food products to the maximum extent for internal consumption changed the old pattern of trade and steadily there has been a decline in the export of raw materials and an increase in the export of semi-manufactured, processed or manufactured articles. Before the war, about 61 per cent. of the country's imports consisted of manufactured goods and the export of manufactured articles stood only at 29 per cent. This trend has now been reversed, but this should not be taken as a permanent change in the patterns as the industrialisation of the country has not proceeded according to any plan which would guarantee the maintenance of the altered pattern of our external trade.

The main changes noticed above in the agricultural situation are likely to affect in a large measure the pace and direction of our industrial progress. Firstly, the vital importance of securing self-sufficiency in food may restrict the expansion in acreage and production of such agricultural products as are used directly as raw materials for purposes of industrial production or in the process of manufacturing industrial products. A preliminary plan would be necessary regarding crop production to meet the increased needs of internal consumption as well as industrial uses. That would mean in effect striking a balance between the maximum development of agriculture for self-sufficiency in food and for the targets of industrial production set up over a period. Similarly, the changes in consumption habits would influence the demand for manufactured articles thus maintaining the pressure on the scarce raw materials and unless there is a simultaneous and rapid improvement in our agricultural production, not only of food crops but also of cash crops, the pace of industrialisation must be held up, or to that extent, import of raw materials or food will be necessary, which may not be ultimately in national interests. Further, in order that industrialisation may advance rapidly imports of essential capital equipment and raw materials in some cases are necessary and the flow of these into the country is conditioned by our capacity to pay, which again depends on exchange resources available and the rate of our imports. There is at present a great need to make a balanced allocation, of the agricultural resources except in food products with a view to maintain our hold on foreign markets until such time as the manufactured articles resulting from growing industrialisation find a place in these or other new markets. The heavy cost of imports of food is a drain on our financial resources which could be better utilised for the imports of equipment for the development of industries. To that extent any success achieved in stopping this drain will greatly help the pace of industrialisation by facilitating greater imports of essential raw materials and equipment.

For an all-round industrialisation of the country, the following industries would require to be promoted:—

Defence Industries.—Such as firearms, munitions, explosives, shells and torpedoes, tanks and armoured cars, warships including submarines, military aircraft, gas and gas masks etc.

Basic and Key Industries.—Such as iron and steel, automobiles and tractors. shipbuilding and marine engineering, electrical engineering and equipment. heavy chemical industries, machine tool industry, industrial plant and machinery, power alcohol, rubber manufactures, coal, cement, synthetic petrol etc.

Consumers goods industries.—Such as cotton and woollen textiles, silk and art-silk manufactures, sugar, match manufacturing, bicycles, starch, motor vehicle battery, glass industry etc.

Services.—Such as Banking, shipping and insurance.

Cottage and small-scale industries.—Have been an integral part of our national economy. Even at present, cottage and small-scale industries play an important part in our rural economy. The agriculturist in India is not engaged in agricultural operations throughout the year. He pursues some other occupation to supplement his income. Among the subsidiary occupations still pursued by him, are hand spinning and weaving flour grinding, rice pounding, basket making etc. There are other village industries also which are carried on in villages as sole occupations such as blacksmithy, carpentry, weaving, tannery, pottery etc. Most of them have been in a state of decadence. During the last world war some of them got a fillip but that was only a temporary phase. The question of their rehabilitation and development must be considered in a comprehensive manner. Their promotion and development will greatly reduce the heavy pressure on land and a balanced economy will be evolved. Cottage or small-scale form of production is particularly suited for the better utilisation of the local resources and for the purpose of achieving self-sufficiency in respect of certain essential consumer goods such as cloth and agricultural implements. Whatever the pace of large-scale industrialisation there is no doubt that both cottage and small-scale industries have a great scope in the economy of the country. The relation between them should generally be of co-operation. They will have an important place in the national economy both from short and long term points of view.

The following are some of the small-scale and cottage industries which can be developed as subsidiary to agriculture:

Sericulture, poultry farming, sheep breeding, dairy farming, fruit cultivation, gardening, gur making, cotton ginning, etc.

The following are some of the small-scale and cottage industries which can be developed as supplementary to large-scale industries:

Motor repairing, tape making, bobbin making, metal-ware, tile and bricks, hosiery, iron manufacture, soap manufacture, dairy products, glass and glass-ware, tanneries, silver thread, etc.

The following can be developed as independent units of production:

Bangle making, oil pressing, shoe and chappal making, carpentry blacksmithy, cutlery and lock, pottery, fruit canning, beedi making, etc.

There are good prospects for the development of the cottage and small-scale industries provided the main handicaps from which they have been suffering are removed and provisions are made to safeguard their interests. The main handicaps have been—foreign competition, lack of cheap and easy making facilities, high transport charges, low purchasing power of the villages, absence of marketing facilities, dearth of technical skill, want of suitable raw materials, illiteracy and municipal taxes.

Factors in the formulation of a new fiscal policy:

There has been a striking change in the composition and direction of our external trade which has considerably altered the traditional pattern. It is very difficult to say that this change indicates growing industrialisation. The present position in respect of external trade is one of reduced *quantum* in exports of the traditional items and the gradual loss of markets captured during the war and an increasing flow of imports which make it difficult to maintain the advantages gained during the war in the composition and direction of trade. Restrictions and controls have been placed on imports and exports and the policy of the Government with regard to the controls has been modified from time to time. There has been a grave dissatisfaction among the trading community on the ineffective and inefficient administration of these controls. The

net result of the unco-ordinated and plan-less manner of administration of the controls has been a shrinkage in the *quantum* of trade during the period as well as a widening of the gap in the balance of payments. On the whole the effects of the legislative and administrative measures have not been successful in planning our foreign trade so as to help the growth and development of industries.

Under the present state of economy, it would be necessary to combine both fiscal and non-fiscal measures in a judicious manner with a view to protecting and developing our industries. While it is necessary to resort to fiscal measures such as tariffs, combined with quantitative restrictions for protecting war-time industries, it may be equally necessary to facilitate the supply of industrial raw materials, essential plant and machinery, technical personnel, concession in freight rates etc. An appropriate tariff policy will help the expansion of external trade by facilitating the imports of essential raw materials, capital goods and machinery required for industrial development of the country.

The main objectives of the tariff policy in the short period should be (i) to maximise production—both industrial and agricultural—by all possible means, (ii) to protect and develop the essential war-time industries as also a number of other industries which had come into existence during the difficult period and have helped to sustain our national economy, and (iii) to develop and assist such industries which can command an export market so as to be able to adjust the present adverse balance of trade in an advantageous manner to the country.

There is a great need for adopting a policy of full-fledged protection directly related to the country's need for rapid industrialisation. An assurance for a full-fleged protection will provide the requisite incentive for the development of new industries by attracting the necessary initiative on the part of the enterpreneur and capital. The main conditions which should govern the recommendation of protection by the Tariff Board should be (i) that the industry is sufficiently important from the point of view of the national interest and is in need of protection or assistance; or (ii) that the industry is in a position to command an adequate home market or a potential export market, and that the burden of such protection or assistance to the community is not excessive. While the consideration that the industry, within a reasonable time, should be able to carry on successfully without protection or State assistance is important, it is not desirable to incorporate the same as a condition precedent for grant of protection.

The following are some of the various alternative methods used for protecting industries in modern times:—

(i) Protective Import Duty, (ii) Bounty or subsidy, and (iii) Quantitative restrictions of imports. The imposition of import duties is commonly accepted as a method of protection but recently it has been recognised that tariff protection alone is not adequate in numerous cases and it has become imperative to combine tariff with quantitative restrictions for protecting industries against unfair competition and dumping. The Tariff Board should be free to determine appropriate measures of protection in each case on its own merits and may recommend such protection in any one of the forms of tariff aid, subsidy, quota restriction or a combination of these measures, according to the needs of a given industry.

The imposition of export duties should not be favoured as a general rule as the same fall on the domestic producers and discourage production. However, in exceptional circumstances export duties are an effective method of protecting a home industry. In respect of those consumer goods which are found to be in critical shortage, export control may resort to in the form of quantitative restrictions on a careful balancing of the needs of domestic consumers and requirements of maintaining our position in the export markets.

An established industry may be given an export stimulus by any one of the following three methods namely, (1) subsidies, (2) tax relief, and (3) freight relief. While a direct method of subsidy is considered more effective for stimulating exports, the same is likely to meet with objection from importing countries as representing unfair competition adversely affecting the terms of trade. The feasibility of applying the method of taxing the profits of export trade at a lower rate than the profits of the home trade as an alternative form of inducement for stimulating exports should be carefully, considered.

On the question of a minimum or a maximum duration to be laid down for protective measures, it is suggested that the protection granted to an industry should extend for a reasonable period so as to afford sufficient scope for the development and expansion of the industry. Protection in the first instance should be granted at least for a period of seven years and further extension must be subject to a review by the Tariff Board. Having regard to the special factors and circumstances pertaining to industries, largely of the nature of basic or key industries, a longer period may also be granted.

Our long term fiscal policy should be:

(i) broad-based and comprehensive to form an integral part of our larger economic policy. The larger economic policy of the country has for its ultimate objective the increase of national wealth by the maximum exploitation of the country's resources in industry, agriculture and man-power. The aim of the long term fiscal policy should be to facilitate the rapid industrialisation of the country by positive measures as well as indirect measures to prevent any external or other factors to impede the continuous progress of industrialisation. In short, the long-term fiscal policy should, through appropriate tariff measures and other methods of direct assistance, prevent unfair competition, promote the full utilisation of the country's resources and safeguard and protect the growth of industries.

(ii) Having regard to the future structure of our foreign trade, the long-term fiscal policy should aim at expanding our exports and imports along the altered course of trade noticed during the war period and also to diversify trade along new channels and to new markets. Our policy should aim at the maintenance and gradual improvement of the existing pattern of trade in respect of composition and direction and an expansion on the *quantum* of trade with a view to closing the gap in the balance of payments and creating a permanent favourable balance of trade position.

At no stage either in the process of implementing their industrial policy or in facilitating the objectives of our fiscal policy is it necessary for government or quasi-government institutions to participate in foreign trade, neither in the short period nor in the long run. The two issues of State participation in industry and State participation in trade are entirely different and the latter need not at all arise out of a policy of State control and management or protection awarded to an industry or industries.

Non-fiscal measures for the promotion of trade and industry.

The following are some of the non-fiscal measures which Government should adopt for the implementation and furtherance of a comprehensive policy of industrial development: supply of essential industrial raw materials, plant and machinery, cheap fuel and power, cheap, adequate and quick transport for the movement of raw, semi-precessed and finished products, technical personnel of different grades, technical information about industrial methods and processes and industrial finance and such other concessions and facilities as may help the rapid industrial development of the country. The Government must accept primary responsibility for supplying the necessary facilities for

bringing about rapid industrial development by the maximum exploitation of the country's resources and thereby increasing the national wealth of the country. Among the measures considered important for bringing about a rapid industrial development of the country may be mentioned: development of transport facilities, development of power, survey of mineral resources, scientific and industrial research and promotion of technical education.

The following are some of the suggestions in regard to the manner in which Government can facilitate the promotion and development of industries:

(a) In case of essential industrial raw materials which are not produced in India in any sufficient quantity or are not at all available in the country, Government should adopt a policy of free import without any restrictions excepting such cases where India is granted a quota under an international commodity agreement as in the case of tin, rubber etc. While the Government has already removed the restrictions on the import of certain essential raw materials, it would be necessary to formulate a definite policy in the light of the requirements of industries in respect of essential raw materials which are not readily available in the country.

(b) Import of essential plant and machinery is one of the principal requirements of the country during the post-war period with a view to implementing the plans of industrialisation. As most of these essential plant and machinery will have to be purchased from abroad at the present inflated prices, Government should try to help the industries in reducing their initial capital expenditure to the minimum by refunding duty on all machinery imported either for the expansion or reorganisation of existing units or for establishing new industries. By offering appropriate concessions in railway freights, the Government can considerably assist industries in the transport of raw materials and finished products which constitute, in some cases, an important factor in the cost of production.

(c) Almost all the Industrial panels, which have submitted their reports on various industries, have emphasised the paucity of technical personnel of different grades for the development of industries and the need for establishing research and technological institutions subsidised by Government. There should be full co-ordination and co-operation between the various research bodies and the industries. Associations representing various industries must act as a link between industries and the Council of Scientilc and Industrial Research and must try to distribute the published technical information about the latest industrial methods and processes to their constituents.

In respect of the supply of industrial finance, the Industrial Finance Corporation has already been established. Under the existing conditions the facilities offered by the Corporation may be sufficient to meet the needs of the industries concerned but it seems necessary to enlarge the scope of industrial finance so as to meet the increasing demands of industries in respect of finance. For example, the Corporation can advance loans up to Rs. 50 lakhs to one concern and is prevented from financing adequately industries such as steel industry and shipping in which larger amounts may be needed. Further, the rate of interest for such loans should be reasonably low so that it may not be a heavy burden on the industries.

Fiscal Policy in relation to Commonwealth preferences.

The question of Commonwealth preferences will have to be considered in the light of the present economic conditions of the country as well as the fact that the country has attained freedom and yet has agreed to remain as a member of the Commonwealth. It will have to be considered whether because of the fact that the system of preference in its application to Indian tariff has adversely affected our trade and industry, it should be abandoned altogether and provision should

be made for the application of the same if it is found beneficial to the development of our trade and industry. It should be recognised that it would be desirable to retain the freedom of having a preferential tariff wherever it is found necessary and it benefits the country's trade. In as much as preference in general with Commonwealth countries is likely to reduce our bargaining strength with non-common wealth countries in respect of items that may be needed from them, they should be continued only to the extent that they do not seriously affect our trade with non-commonwealth countries. Further, the preferences should be subject to periodical revision and modification in the interests of our trade expansion.

The Jaipur Chamber of Commerce, Jaipur.

The Committee of Chamber, carefully considered the Havana Charter in their meeting of the 17th instant. In their opinion the reduction in tariff levels, in accordance with the Charters objective of liberalization of International trade, would not be beneficial for India. Further the Committee are also of the view that it would adversely affect the industrialization of the country.

Therefore the Committee of the Chamber are of considered view that the Havana Charter should not be ratified by the Government of India.

We hope the Commission would advise the Government not to ratify the Charter.

Federation of Indian Chambers of Commerce and Industry, New Delhi.

I am directed by the Committee of the Federation of Indian Chambers of Commerce and Industry to send herewith their reply to the First Part of the Questionnaire issued by the Fiscal Commission and to request you to bring the same and the following to the attention of the Commission:—

The Committee have given their very careful consideration to the Questionnaire which closely follows the Commission's terms of reference as detailed in the Resolution No. 34-T(37)/'48 dated the 20th April, 1949 of the Government of India in the Ministry of Commerce. It would seem, as per the terms of reference, the main function of the Fiscal Commission is to examine the tariff policy of the Government and to make recommendations in this regard. Considering that the Commission has been styled as "Fiscal Commission," it is indeed surprising that an examination of matters pertaining to the finances of the State, *i.e.*, how the Exchequer raises its finances and how governmental measures affect the ability of the people to save and invest, etc., have not even found a place in the terms of reference. The Committee attach very great importance to this question as the future commercial policy of India can best be considered only as an aspect of a wider and camprehensive economic policy which is directed to the building up of an expanding and stable economy. In the opinion of the Committee the most appropriate tariff and commercial policy cannot be applied piecemeal in a haphazard fashion, nor should any rigid formulæ be devised for their application. The committee, therefore, submit that the Fiscal Commission must concern itself also with the basic issue as to what Government should do to create a suitable atmosphere for industrial environment. In this connection, the Commission must enquire and satisfy itself whether the present industrial and financial policy of the Government is designed to achieve this purpose.

An authoritative statement of the Government's industrial policy is contained in a Resolution dated 6th April, 1948 and it is the claim of the Government that in formulating their policy due consideration has been given to the interests of the industry, workers and the people in general, so that Government's policy could achieve the twin objectives of higher production

and more equitable distribution without jeopardising the interests of any section. The Policy Statement is welcome in so far as it affirms the responsibility of the State for the economic welfare of the country and to the extent the Government have attempted not to lose sight of the practicable in the maze of what ought to be. For instance, while Government desire to play a progressively active role in the development of industries, they feel that for some time to come they could contribute more quickly to the increase of national wealth by expanding their present activities wherever they are already operating and by concentrating on new units of production in other fields rather on acquiring and running existing industries. It is, however, a matter of disappointment that there are definite indications that the ultimate objective is the nationalisation of all industrial activities in the country. For the purpose of implementation of the policy of nationalisation by categories and stages industries have been grouped under three heads:—

(1) Those which are to be the exclusive monopoly of the Central Government.

(2) Some existing undertakings will not be disturbed for a preiod of ten years and will be given facilities for efficient working and reasonable expansion. But new undertakings in this sphere will be the exclusive responsibility of the State.

(3) The rest of the industrial field will normally be open to private enterprise, individual as well as co-operative. The State will progressively participate in this field also, nor will it hesitate to intervene whenever it is felt that the progress of an industry under private enterprise is not satisfactory.

While it may perhaps be necessary to treat certain industries of strategic significance as monopoly industries of the State, the Committee have to point out that they cannot see eye to eye with Government on the question of the respective roles of State and private enterprise in the present set-up of the country's economy. Having regard to the fact that a tremendous leeway has to be made up in the economic field, it is essential that private enterprise should be given full opportunities to play its full part in achieving the desired end of rapid economic development. Generally speaking, therefore, Government's industrial policy should be re-orientated in such a way as would assure the investing public about the future of their savings and an economic return thereon. Moreover, industries in the hands of private enterprise must feel confident that they would be given a fair chance to compete with the units which Government may set up. In other words, units managed by private enterprise should not be discriminated against by Government in regard to raw materials, market, taxation etc. It implies further that any facilities which the Government units would enjoy in regard to transport etc., would be fully extended to private units also. In this context, the Committee would also like to urge upon the Commission to consider Government's policy towards foreign capital *vis-a-vis* the creation of a suitable industrial environment in the country.

In regard to the importation and participation of foreign capital in India and in Indian industries. Government's first pronouncement on the subject is found in their Statement on Industrial Policy (6th April, 1948). Government stated:—

"While it should be recognised that participation of foreign capital and enterprise, particularly as regards industrial technique and knowledge, will be of value to the rapid industrialisation of the country, it is necessary that the conditions under which they may participate in Indian industry should be carefully regulated in the national interest. Suitable legislation will be introduced for this

purpose. Such legislation will provide for the scrutiny and approval by the Central Government of every individual case of participation of foreign capital and management in industry. It will provide that as a rule the major interest in ownership and effective control should always be in Indian hands, but power will be taken to deal with exceptional cases in a manner calculated to serve the national interest. In all cases, however, the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon."

In short the conditions laid down were (1) majority of Indian capital, (2) Indian management and (3) training of Indian technicians by foreign technicians so that the latter might be eventually replaced by the former. The reaction in the country to Government's policy was that Government were proceeding on the right lines. Important statements, however, have been made since by top spokesmen of Government including the Prime Minister and it appears therefrom that there is a marked shift in Government's policy towards foreign capital. It is stated that the policy of the Government is to allow foreign capital to come in to operate freely in the industrial field. The reasons advanced in support of this new policy are:—

(1) The paramount need of the country is an increasing measure of industrialisation at the most rapid pace possible;

(2) the amount of Indian capital available is not sufficient, and Indian capital is also hesitant to come out even for a project bearing little or no risk.

Government have also made it clear that they do not intend to place any restrictions or impose any conditions which are not applicable to similar Indian enterprise.

While the Committee are second to none in wanting a rapid industrialisation of the country, they strongly feel that great caution and circumspection has got to be exercised in choosing the means for realising the ends in view. Apart from the fact that Government's present policy in regard to foreign capital is completely at variance with the view all this time commonly accepted and recognised by national interests, it would make it impossible for domestic capital and enterprise to make any headway.

It would be recalled that the Advisory Planning Board (1947) of which the present Commerce Minister of the Government of India was the Chairman, cautioned the country against indiscriminate use of foreign capital. According to the Board:—

"The reasons for keeping the basic industries of the country free from foreign control and entirely in the hands of the nationals of the country are obvious. But even in the case of other industries, *e.g.*, consumer goods industries, we think there are good reasons for a similar restriction. If foreign companies with their vast resources, technical and financial, are allowed to establish themselves in industry in the fields not covered at present by Indian enterprise, there is little chance, in our opinion, of that enterprise being brought into existence even at a future date. Even if an attempt is made, it would have to contend against formidable difficulties. It seems to us preferable that the goods which the country cannot produce later on should continue to be imported from other countries rather than that their local manufacture should be started or expanded by foreign firms. In the course of time, it will be possible to restrict or discontinue foreign imports;

but foreign vested interests once created would be difficult to dislodge."

The Committee also desire to point out that there are certain absolute factors which hold good for all time irrespective of the stage of the economic development or political status of the country in which foreign capital operates. The "stress on the need to regulate, in the national interest, the scope and manner of foreign capital" does not arise merely "from past association of foreign capital and control with foreign domination of the economy of the country." It cannot be denied that the existence of foreign capital and the liabilities which go with it constitute a serious restriction on the country which uses foreign capital to manage its monetary policy according to the needs and requirements of its industry and trade. India has particular reasons to realize this fact as till lately the financial policy of the Government of India had to be programmed to meet the fixed external obligations of the order of about Rs. 50 crores. The country has to be wary before assuming new responsibilities in this regard. As any external financial obligation has ultimately to be paid for by export of goods and services, a very careful survey must be made to assess the country's "transfer" capacity, *i.e.*, the country's ability to effect increased savings and increased exports. The fact that India is having an unfavourable trade balance now has also to be taken into account as external financial obligations can be met only through export surpluses.

The Committee have to point out that were foreign capital permitted to enter freely into India, the objective with which protection to indigenous industries is sought and granted will be defeated. The idea behind protection is to assist domestic concerns to build themselves up to meet the superior foreign competition. In case foreign companies themselves are allowed to be established in India, domestic concerns which are relatively weaker in regard to financial resources and technical knowledge will not be able to compete with these foreign companies. Should these foreign concerns also get the benefit of Governmental assistance as any Indian enterprise, they will be further strengthened and the effect on future Indian enterprise and capital can easily be imagined.

In the Committee's opinion, Government should also consider the effects of their new foreign capital policy on the Indian shareholders. Believing that the National Government would encourage and protect national enterprise, the shareholders have been investing their savings in new pioneering Indian concerns. If Government permit foreign capital to operate freely in industrial field on the ground of introducing "a healthy spirit of competition", the effect would be that the foreign companies, which would be starting with an initial advantage by way of greater financial resources and technical knowledge, would score over the Indian units and the savings of the Indian shareholders in these units would thus be adversely affected. This will discourage Indian shareholders to invest in Indian enterprises. From all points of view, it is clear that an open-door policy to foreign capital will adversely affect the various sections of the Indian population.

In this connection, the Committee would also like to bring to the notice of the Fiscal Commission the reported procedure adopted by the Government in regard to giving permission to foreign companies to establish themselves in this country. It is stated that a special departmental committee has been set up to expeditiously dispose of foreign applications. On the other hand, the applications emanating from Indian entreproneurs are subjected to severe scrutiny by Government at various stages resulting in avoidable delay. The Committee are surprised that the foreign companies should receive what seems to be a preferential treatment at the hands of the Government of India even in respect of their applications and would therefore request the Fiscal Commission to go into this matter also.

It is also pertinent to note here that the various Industrial Panels which had in their membership senior officials of the Government of India and representatives of industry and trade which guided the Advisory Planning Board (1947), felt that "what was physically possible was also financially feasible". That within a short time thereafter there should be a dearth of domestic capital for implementing an expanding industrial policy is a matter of serious concern, and this should receive a dispassionate and thoughtful consideration at the hands of the Fiscal Commission with a view to seeing how far and in what way the acts of commission or omission on the part of the Government are responsible for this state of affairs and how best the position could be retrieved.

It will be seen that the notorious Liaquat Ali Budget of 1947 had a blighting effect on the economy as a whole and that Government's taxation policy to-day remains in essentials the same. The penal rates of taxation, particularly of the high income groups, have considerably reduced the incentive and capacity to save. In 1938-39 the maximum individual income-tax rate was 28-/6 pies in the rupee on incomes in excess of Rs. 1 lakh and maximum rate of super-tax on individuals was 6 annas 3 pies in the rupee on incomes in excess of Rs. 5½ lakhs. On companies, the rate of income-tax was 28-1/6 pies in the rupee flat, and super-tax levied at the rate of 13 pies in the rupees. The sum-total of income-tax and super-tax at the maximum rates paid by an individual in the last pre-war year was 8 annas and 7 pies in the rupee and the corresponding sum paid by companies was 3 annas and 5 pies in the rupee. To-day, on the other hand, the respective figures for individuals and companies are 15 annas and 7 annas in the rupee. It has been estimated that the upper and middle classes forming about 12·4 per cent of the population contribute 86·33 per cent of the tax revenues while the lower-class constituting 87·6 per cent of the population contribute only 13·76 per cent of the revenue. This is the result of the increasing reliance placed by the Central Government on direct taxation Enquiry as well as expediency demand that this undue tax burden on a small section of the community should be lightened.

The only redeeming feature is that it has been recognised by the Government now that the present levels of taxation, to quote the Finance Minister, "which have come, so to speak, as a projection from war-time, are levels which are uneconomic from the country's point of view." Inasmuch as the country's pace of development is closely related to the rate of savings, a careful scrutiny should be made of the financial structure of the country with a view to modifying it to serve the object of bringing about rapid economic progress. The major factor in economic development, it must be borne in mind, is utilisation of the domestic savings. Foreign capital made available in the form of loans, direct investments or grants can only supplement domestic savings. In view of the need and urgency to base our economic development on domestic savings, the fiscal policy of the Government (in the sense of financial policy) should be related to the industrial and commercial policy, and not be something independent or apart from it.

The Committee have thought it necessary to bring to the notice of the Fiscal Commission the above matters as they consider that if an appropriate tariff policy and machinery are desirable to safeguard Indian industries from superior foreign competition which may emanate from abroad, it is more important to ensure first that Indian industries do not languish on account of Government's policies with regard to nationalisation, foreign capital, taxation, etc.

The Committee are constrained to find that there is considerable confusion of thought in the country on the question of protection. It has been urged that a policy of high tariff rates always implies sacrificing the interests of Indian consumers. The rather naive suggestion is that either Government should

manage the protected industries or control their working at every stage and give protection to the domestic industries for only a period of two or three years. The Committee wish to point out that it is idle to speak of the "burden of protection" regardless of the benefit which such protection gives to the community as a whole. As Dr. Dalton has observed *apropos* the burden of taxation "no sensible person speaks of the 'burden' of drawing cheques regardless of the purposes for which they are drawn." While the Committee no doubt appreciate the need to emphasise and secure increased economic efficiency, *i.e.*, a reduction in the real costs of production, they feel that it is wrong in principle to unduly interfere in the working of the industries in the name of the consumer. The Committee no doubt deprecate "the easy going get-rich-quick attitude to life which in all fields of society has found its post-war devotees," but they are confident that those connected with industry and trade will as ever place common interest above sectional and regional gains. The economic history of India proves the vigour with which Indian enterprise has countered the numerous difficulties in the way of economic development. As for vesting the Government with discretionary powers in respect of controlling industry and trade, the Committee wish to point out that this attitude raises at once both economic and social problems. A centrally planned economy involving State determination of investment and distribution, of occupation, of consumers' choice, etc., involves progressively the destruction of individual initiative and freedom in the economic as well as political field. In the Committee's opinion there is no ground for the assumption that increase in wealth can be speed up by the mere intervention of the State in economic affairs. On the other hand experience in India, as in other countries, shows that while tre State can assist individual initiative and enterprise, it cannot supplant them except by sacrificing efficiency as well as liberal political traditions.

In regard to the period for which protection should be extended to domestic industries, it is obvious that the period must be determined by the needs of the industry concerned and the exigencies of the situation. Discussing the length of time to be allowed for the experiment of protection in an industrially advanced country like the U.S.A. Frank William Taussig has opined that it (length of time) should not be too brief. "Ten years are not enough; twenty years may be reasonably extended; thirty years are not unnecessarily unreasonable." He also says that there is scope of protection to young industries in a country as fully developed as the United States has been since 1860. If protection is recommended to industries in the United States, the scope of protection is undoubtedly greater in India which has yet to develop her industries commensurate to the resources available.

The Committee also note the argument advanced that the tariff policy of the Government of India must be evolved against the present international background which is in favour of liberalising international trade and removing restrictions thereon. There is no doubt that India must be in continuous touch with developments abroad, but that should not mean that Indian commercial policy should not be designed to meet the requirements of the domestic situation. The Committee had occasion to point out in their reply to Part II of the Fiscal Commission's Questionnaire regarding the Havana Charter on Trade and Employment and the General Agreement on Tariffs and Trade that the countries which now favour the liberalisation of international trade have developed their industries under a policy of protectionism. The Committee consider that the observations which List made a century ago while discussing Adam Smith's theory of universal free trade hold good even today. List said: "Any nation which by means of protective duties and restriction on navigation has raised her manufacturing power and her navigation to such a degree of development that no other nation can sustain free competition with her can do nothing wiser than throw away her ladder of greatness and preach to other nations the benefits of free trade and to declare in penitent tones that she has

hitherto wandered in the paths of error and now for the first time succeeded in discovering the truth."

It is interesting to note that Indian experience also goes to show that nascent industries can grow to their full stature only through a policy of protection. Although the policy of discriminating protection as enunciated by the Fiscal Commission (Majority) in 1922 and accepted by the then Government of India, was inadequate to meet the requirements of the country, it nevertheless assisted the growth of some industries. If industries in India had not developed to the extent desired by national interests, it was because the policy of protection was not applied wholeheartedly in a spirit of sympathy and understanding. It is true that the policy of discriminating protection represented a definite shift away from free trade, but it did not provide for the fostering of new industries. Only established industries on a large scale came under the purview of this policy. The triple conditions laid down by the Fiscal Commission, particularly as interpreted by the administration, at best offered perfunctory assistance to domestic industries. For instance, Government insisted that an industry applying for protection should possess all the natural advantages mentioned in the first condition of the Fiscal Commission, although it would seem that the advantages enumerated were meant to be only illustrative as the words "such as" and "or" clearly suggest. The first condition says: "The industry must be one possessing natural advantages, *such as* an abundant supply of raw material, cheap power, a sufficient supply of labour, *or* a large home market." Very few industries in foreign countries would have developed, had they to satisfy all these conditions. Even the safeguarding of the Industries Act in the United Kingdom granted protection to British industries not on the basis of an existing or potential comparative advantage in international trade. The English Act provided and granted protection on grounds of creating a larger volume of employment at home. Protection to industries such as lace, embroidery, cutlery, pottery, etc., was granted in U.K. merely because they were established English industries.

Since 1945 the Indian Tariff Board has been asked to apply a revised formula before recommending protection. The new formula is more liberal than those laid down by the Fiscal Commission. The 'national interest' clause gives scope for fiscal assistance and protection to such industries as may be considered essential for strengthening the Indian economy. Under the new conditions even if some of the raw materials are not available in the country, an industry may be entitled to protection on the strength of its other economic advantages. But, according to the new formula also, it is only when an industry "is established and conducted on sound business lines," it is entitled to protection and assistance. This condition is restrictive in character for, in certain circumstances, unless protection is guaranteed in advance new industries may not be established. Moreover, it may not be possible for every industry which applies for protection to prove that it is conducted on "sound business lines." Much will therefore depend upon how this condition is interpreted by the Tariff Board.

In the Committee's opinion Government's Fiscal Policy should be wide and liberal enough to encourage the utilisation of our resources, human and material. Protection should not be looked upon as an independent measure of assistance in itself. It would be therefore desirable not to lay down specific conditions for regulating the grant of protection or assistance to indigenous industries. It should however be clearly laid down that the main function of the Tariff Board should be to see how far and what governmental assistance should be extended to help indigenous industries, existing and potential, to stand up against foreign competition, and to ensure that the burden on the consumer and the taxpayer is lessened progressively. While the

Tariff Board should be made a statutory and permanent organisation, its terms of reference should be broadly indicated on the following lines. The Tariff Board's function would be to investigate, on application as well as on its own initiative, the assistance, fiscal or otherwise, which the Government should extend to indigenous industries. It should also be the function of the Tariff Board to make a continuous review of the effects of Government's policy of assistance. Again, the Board should be empowered to periodically review the economic relations between India and foreign countries with a view to advising the Government in this behalf. In short, the Tariff Board should be a semi-judicial body with investigatory and advisory functions and without administrative authority.

With a view to ensuring that protection to domestic industries is given in time, the Tariff Board should be generally directed to quickly complete their enquiries and submit their recommendations to the Government. The latter also should take suitable action without delay on the recommendations of the Tariff Board.

It is interesting to observe here that the institution of the Tariff Board or Commission seems to be popular only in the English speaking countries. In the European Continent and Japan domestic industries have been protected and assisted by the respective Government without setting up a separate Organisation for making elaborate preliminary enquiries. If the idea of having a Tariff Board is looked upon with favour in India now, it is because it is hoped that it will function usefully and effectively in the interest of the country. The Committee are strongly of the opinion that the Tariff Board should be an "enabling" institution, *i.e.*, it should be an instrument for the implementation of a national commercial policy and not an impediment in the programme of rapid economic development. The question of making public the reports of the Tariff Board also merits consideration from various angles. While the publication of the detailed reports of the Tariff Board may be considered to be an accepted principle, the question has to be reconsidered in case India becomes a member of the I.T.O. notwithstanding the drawbacks of such membership to India stressed by the Committee in their reply to Part II of the Fiscal Commission's Questionnaire. The fact is that if the findings of the Indian Tariff Board were publicised they would become a convenient handle for the other members of the I.T.O. to question not only the need for protection to Indian industries but also the quantum of protection that might have been asked and granted.

Before concluding, the Committee would like to emphasise the content of an appropriate Fiscal Policy. Generally speaking, Indian industries should be encouraged to stand on their own legs as early as possible and this would be possible only if they are not asked to shoulder special obligations on the ground that they are receiving governmental assistance. Governmental assistance, if it is to be effective, should not be hampered by measures which result in rigidity in cost of production. Such assistance that Indian industries get from Governmental side should be rightly considered as given to the country as a whole, for it is only through a rapid promotion of indigenous industries, the country can be made self-reliant and the standard of living of the people raised.

The Committee would request the Fiscal Commission to give their careful consideration to the above suggestions in conjunction with those given in the reply to the questionnaire.

REPLY OF THE COMMITTEE OF THE FEDERATION OF INDIAN CHAMBERS OF COMMERCE AND INDUSTRY TO PART I OF THE FISCAL COMMISSION'S QUESTIONNAIRE.

SECTION A (I)

Introductory—Changes in the Economic Background since 1922-23.

Question 1.—Do you consider that the economic background in the country has so altered since the Indian Fiscal Commission reported in 1922 that it necessitates a fundamental change in the approach to the problems with which the present Commission is concerned?

The Indian economy to-day, as compared to the early 'twenties' bears the imprint of the vicissitudes of the Great Depression of the 'thirties' of the second World War (1939—45) and the partition of the country in 1947. The last-mentioned factor is of profound significance not only because it is the latest from the point of time but also because it is on the basis of the divided resources, human and material, that a suitable economic and commercial policy has got to be determined. A gratifying new factor, however, is the political freedom that has been attained by the country. All these years, the absence of political freedom naturally became all important even from the economic point of view. With the best of will, which was not always present, no adequate programme of economic development could be carried through smoothly and successfully by our foreign rulers. Now that we have a National Government of our own, our economic problems, however complicated they may be, could and should be dealt with on the economic plane having regard to the larger and permanent interests of the country.

Since 1922 when the First Fiscal Commission submitted its report there has, however, been some industrial progress. Even the half-hearted measures of protection that were adopted by the authorities helped the establishment and growth of industries like iron and steel, cotton textiles, sugar, paper, etc.

The Second World War while it helped industrial activity to some extent, also brought to the fore the backward state of the Indian economy. Such expansion as took place was limited for various reasons. Apart from the apathy of the alien Government, the very undeveloped nature of India's economy stood in the way of making any appreciable progress in industrial development. In the post-war years, however, the country has not been able to maintain even the little progress achieved during war years. Important changes have taken place in the patten of our foreign trade, particularly as a result of war and partition. Further, the country has been facing for some time now the seemingly intractable problem of balance of payments. India which hitherto had a favourable balance has now come to face a deficit balance and this is one of the most disquieting features of our present economy.

Alongside these important changes and the attendant problems, there are certain other long-standing problems such as excessive dependence on agriculture, the pressure of population on the existing resources etc., which mark the general background of the country and to which the Fiscal Commission should also address themselves. These longstanding problems as well as the changes that have taken place in the country—most important of which are political independence, the general desire to attain higher standards of living as early as possible and the aspirations of India's growing industries—call for a fundamental change in the approach to be adopted towards fiscal problems. There is every need to formulate and implement a bold policy of protecting and developing Indian industries both by fiscal and non-fiscal measures. The question of protection to and assistance of Indian industries should be considered in the context of the imperative necessity to fill up the gaps in the present industrial

structure and strengthen the national economy as a whole. Uptil now, by and large, only consumer goods industries particularly those which did not require large capital or technical personnel have been set up in the country. Large consumer goods industries like rayon and plastics and basic industries have got to be established and an appropriate fiscal policy has to be adopted to achieve the ends in view.

Question 2.—Will you list the principal changes in our agricultural situation in respect of (a) production, (b) consumption, and (c) international trade in agricultural commodities?

(a) The separation of Burma from India in 1937 and the division of India into two States a decade later have affected India's production and export position in some of the most important agricultural commodities.

Prior to the separation of Burma from 1st April, 1937, India produced cereals in quantity which was not only sufficient for internal consumption but also left a surplus for exports. India and Burma combined were producing over 30 million tons of cleansed rice, *i.e.*, more than one-third of the total world production. Burma's share of the total production stood at approximately 5 million tons and this helped to make good any deficiency in the supply for local consumption in other parts of India. India utilised about 1·5 million tons of Burma rice for internal requirements. Exports of India, including Burma, amounted to about 6 per cent. of total production. Since the separation of Burma, India became a net importer of foodgrains. During the period 1937-38 to 1939-40 the extent of average net imports was more than one million tons of foodgrains, mostly rice from Burma and this went mostly to feed the West Coast consisting of Malabar, Travancore, Cochin and Bombay.

More serious in its effect on the agricultural side of India's economy has been the partition of India into the Indian Union and Pakistan from 15th August, 1947. While the Indian Union has to support 82 per cent of the total population of undivided India, her command over agricultural rescources has been more than proportionately curtailed. The production of principal foodgrains within India's borders now only amounts on an average to 77 per cent of the total production of undivided India, the result being that the partition of the country has increased our deficit of foodgrains. India is now without the rice and wheat surpluses of Sind and West Punjab. It is estimated that due to partition the country has lost nearly 8 lakh tons of internal supplies of foodgrains. Latterly the Government of India have taken the view that the import figures represent the net deficit. It may be noted that we imported 2·3, 2·8 and 3·7 m. tons of cereals during 1947, 1948 and 1949 respectively. Government have programmed to import 1·3 m. tons of cereals during 1950. In view of the fact that imports of food-grains impose a heavy burden on the Central finances by way of subsidy and constitute a serious drain on our foreign exchange resources, it is essential that the dependence of the country on imports of foodgrains should be terminated as early as possible.

The Indian Union has lost on account of partition the bulk of raw jute supplies and the finer varieties of raw cotton produced in undivided India. The most serious effect of the partition has been in regard to the supply of raw jute. During the pre-war years, after meeting the demand for mill and village consumption, we could export as much as 4 million bales of raw jute and earn foreign exchange worth Rs. 14 crores at the pre-war prices. The production of raw jute in the Indian Union falls short of our consumption requirements which are approximately 6·5 million bales—our production was 1·7 million bales in 1947-48 and 2·2 million bales in 1948-49. While there is not a single jute mill in Pakistan, she produces more than 75 per cent of the total production of raw jute of undivided India. The result has been that during the year 1948-49 we had to import raw jute from Pakistan worth more than Rs. 70 crores.

The partition has also affected the supply of raw cotton for internal consumption as well as exports. While mill consumption of Pakistan is only 2 per cent. of the total mill consumption of undivided India and total consumption about 6 per cent. of that of undivided India her production is about 40 per cent. of the production of undivided India. Indian Union with 98 per cent. of the total mill consumption and 94 per cent. of the total consumption (including extra factory) of raw cotton of undivided India produces only about 60 per cent. of undivided India's production. The position of cotton in India at the time of partition (1946-47) was as follows:—

(Lakhs of Bales)

	Indian Union	Pakistan	Undivided India
Productin	26	16	42
Mills consumption :			
Indian Union Cotton	21·8	..	21·8
Pakistan cotton	9·8	0·7	10·5
Other foreign cotton	7·0	0·1	7·1
Total	38·6	0·8	39·4
Extra-factory consumption :	2·7	1·8	4·5
Total consumption	41·3	2·6	43·9
Exports	4·57	5·72	10·29

The following figures of imports and exports of raw cotton for the year 1946-47 (year prior to partition) and 1948-49 (year subsequent to the partition) will show the effects of partition of India's external trade in the commodity:—

	Year	Imports	Exports (including re-exports)	Balance of Trade (Lakhs of Rs.)
	1946-47	2593	2804	+211
	1948-49	6462	1915	—4547
Increase or decrease in	1948-49	+3869	—882	

Out of this increase in the imports of raw cotton worth Rs. 38·7 crores, imports from Pakistan account for Rs. 16·5 crores.

(b) By and large the consumption requirements of India in respect of agricultural commodities have gone up with the increase in population. To illustrate: The consumption of tea in the country till 1927 was below 50 m. lbs. It was less than 100 m. lbs. till 1937, but it increased to something about 120 m. lbs. in the following years and now stands at about 150 m. lbs. per annum. The domestic consumption of coffee before the war years was about 10,000 tons and the balance was exported. Since the war, the main reason for the disappearance of the export trade in coffee is the increase in the domestic consumption. Further, the shift in the national income in favour of the poorer classes has also augmented the demand for greater and better varieties of food, although the *per capita* consumption falls short of the scientific caloric standard.

(c) For the past few years significant changes have been taking place, for various reasons, in our export trade of agricultural commodities. The proportionate share of the export of raw materials to total exports has been steadily declining. Before the war, raw materials and produce and articles mainly unmanufactured constituted about 45 per cent. of India's export trade, while in 1948-49 the share of this group in the export trade was only 23·4 per cent. For instance, the proportion of exports of groundnuts and linseed to their total production has been steeply falling. While in 1924-25, the exports of groundnuts and linseed were 28·7 and 74 per cent. of total production, they fell to 1·2 per cent. and 6 per cent. in 1948-49. The increased domestic demand and the revised policy of Government to encourage only export of semi-manufactured, processed or manufactured articles may be said to be the reasons for a decline in the export of raw materials.

The partition of the country has, however, affected India's export trade in agricultural commodities. As indicated earlier, our major loss is in respect of raw jute supplies and the finer varieties of raw cotton. Our export capacity in the case of raw jute has severely suffered on account of the partition and in fact the Indian jute mills are faced with the problem of getting adequate supplies of raw jute. It is also estimated that India's capacity to export has been reduced by 65 per cent. in the case of raw wool, 60 per cent. in the case of raw cotton and waste and 10 per cent. in the case of tea.

Question 3.—To what extent, if any, have these changes affected or are likely to affect in future, the pace and direction of our industrial progress?

The division of agricultural resources particularly of commercial crops like raw jute and raw cotton consequent upon partition affects our industrial programmes in more ways than one. Our jute industry is faced with the problem of securing adequate supplies of raw materials. The total crop of raw jute in India during 1948-49 was 2·2 m. bales which is a little more than 25 per cent. of our requirements and for the balance India had to depend upon Pakistan. The mills were working for the whole of the last season with seriously depleted stocks and in April, 1949 they decided to curtail production so as to conserve their available supplies of raw material. Similarly the Indian textile industry has been forced to depend on imports of raw cotton from Pakistan. The Hides and Skins Industry is also against the problem of securing sufficient raw material. The devaluation of the rupee in terms of dollar which was effected in September, 1949 and Pakistan's unwillingness to fall in line with India has resulted in prices of Pakistan raw materials becoming uneconomic to the Indian mills. The consequent cessation of trade activities between the two Dominions has further complicated the problem. It would, therefore, appear that there is not much scope for developing the two major Indian industries Jute and Textiles—until production of raw materials required by these industries is stimulated and increased within the country itself.

This means that the energies of the nation have to be concentrated as much on agricultural self-sufficiency as on accelerating industrial progress. The need to improve the industrial raw material position and indigenous food supplies has gained importance from the point of industrial development as well.

Our dependence on foreign markets for food and raw materials like jute and cotton constitute a drain on our exchange resources which could be better utilised for import of capital equipment.

Again on the industrial side, we have also got to encourage the production of such industries as would supply fertilisers, etc., which would improve our agricultural production.

Question 4.—What are the basic improvements in our agriculture and mining that you would consider urgently necessary as a support for any policy of intensified industrialisation?

An increase in agricultural output is the main problem which has to be solved with a view not only to make the country self-sufficient but also to make it possible to implement a policy of intense industrialisation. The increase in total output has to be effected as far as possible through increasing the yield and productivity of the land under cultivation now. There is a school of thought according to which agricultural production had reached its peak in India during the war years in response to the stimulus of high prices and that there is no great scope for further increase. But in fact it is quite possible to increase the average yield and the scope for increasing production becomes apparent when our average yield is compared with yields in foreign countries. For instance, the average yield of rice in India is about 800 lbs. per acre as against 1400 lbs. in China, 1450 lbs. in the U.S.A. 2000 lbs. in Egypt, 2300 lbs. in Japan, and 3000 lbs. in Italy. It should therefore be possible to increase yields per acre by using improved varieties of seed, by application of manure and by protection from diseases. It is also a practicable proposition to think of augmenting production through the adoption of aforesaid measures together with provision of better irrigation facilities, better implements, better systems of cropping and prevention of soil erosion. The State should also facilitate the distribution of good seeds, manures, implements and other agricultural requisites. Construction of pucca store houses would eliminate wastage which is now taking place on account of the defective methods of storage. Again effort must be made to reduce wastage either due to insect pests, rats, etc., or defective methods in harvesting or on the threshing floor. Generally speaking the main problem of Indian agriculture is the low yield per acre. The solution lies in continued and sustained efforts, particularly on research to augment the yield of the land.

The mineral resources of India are still unexplored and it is necessary to make an exhaustive survey covering the whole ground. The estimated resources, however, in a number of metals and ores, such as iron, manganese, mica aluminium, titanium ores and of the ferro-alloy metals are adequate to support a policy of intensive industrialisation. The hematite ore fields of Bihar and Orissa contain about 2832 million tons of high grade ore, but the annual production of pig iron and steel yet remains quite small; it amounted to only 14 lakh tons and 9 lakh tons respectively during the year 1948. Similarly in the case of aluminium while ore reserves are computed to be about 250 million tons, the annual production at present amounts to less than 4,000 tons as against the requirements of 15,000 tons. In the case of mica, while we are the biggest producer in the world, further possibilities of the development of the industry lie in better scientific equipment and working of the mines, less wasteful methods and persistent experimenting to convert the vast accumulations of scrap mica into a marketable product. India is also one of the world's great producers of high grade manganese ore. The future expansion of Steel Industry in India will greatly increase the internal requirements of manganese ore.

Though reserves of low grade steam coal are very large, reserves of good cooking coal according to the Indian Coalfields Committee are only 750 million tons, and at the present rate of output, they will be exhausted in about 65 years. This combined with the shortage of petroleum raises a serious problem for India. But the future development of hydro-electric power in the country will reduce this deficiency. We should also explore the full possibilities of the use of power alcohol from molasses. Moreover the Coal Industry itself should be developed on the lines recommended by the Indian Coalfields Committee regarding conservation and scientific utilisation of coal.

The position in respect of non-ferrous metals is one of scarcity. While the position with regard to lead, zinc, copper etc., can be improved to some extent,

the deficiency in respect of tin, silver, platinum, mercury etc., appears to be of a more permanent nature. The country's mineral policy should be one of planned exploitation of reserves. Further, indiscriminate export of minerals should not be permitted. Vigilance over the export of minerals is necessary so that our reserves are not dissipated and only such minerals which are treated in the country are exported. A thorough geological survey of the country must be undertaken with a view to particularly finding our resources in such important items like petroleum, tungsten, etc. It has also to be considered how the domestic demand for our minerals could be increased so that the exploitation of mineral wealth in the country is continuous and not dependent on foreign demand as has been the case, for instance, of manganese. It can be said that increased and continuous demand for our minerals would be possible only through the industrialisation of the country. Moreover substitutes which may be locally available or from alternative sources through scientific research should be explored. It is worthwhile to find out how far it would be possible to utilise aluminium as a substitute for copper and steel and in any estimate of our mineral resources we should take into account how these could be expanded by substitutes.

Question 5.—What are the main directions in which our industrial development has progressed since the Indian Fiscal Commission reported in 1922? Please give your appreciation of the same.

Since the adoption of the policy of protection in 1923 some industrial progress has been made. The Fiscal Policy which was adopted, however halting and inadequate it was in scope and application, assisted the iron and steel industry, cotton textile, sugar, paper, matches etc. Chemical Industry on the acid side, it may be said, has developed owing to natural protection but on the alkali side there has been no progress.

The overall picture of the economic development that has taken place is not bright. Gaps in the structure of Indian economy were glaringly brought out under the pressure of war. When the war broke out in September 1939, India found herself, except for iron and steel industry, without a very large number of industries falling in the group of manufacturing industries for the development of other industries and for economic development in general. She had no shipbuilding yards or factories manufacturing automobiles, tractors, locomotives aircrafts, heavy chemicals, final chemicals, fertilisers or any of the basic manufacturing industries which are so essential in times of war and peace. There was also scarcity of engineering experience or know-how. It was also found that the lack of adequate mechanical, electrical and hydraulic equipment and the like in the few technical colleges and institutions that had been established constituted yet another real handicap to the effective education and training of technical students. In the absence of the above, India was left behind other countries in the matter of industrial development in response to war conditions.

Question 6.—To what extent do you think our industrial development still falls short of our essential requirements? Would you list our main deficiencies under the following heads:

(a) *Lines of manufacture which you consider essential;*

(b) *Volume of production;*

(c) *Overhead and operative costs;*

(d) *Quality of management;*

(e) *Supply of capital;*

(f) *Availability of raw material, fuel and power;*

(g) *Availability of high grade technical ability;*

(h) *Supply of skilled and unskilled labour;*
(i) *Efficiency of labour.*

(a) The industrial development of the country should be viewed in the context of the present needs of the country and also in relation to the programme of progressively effecting a rapid and sustained increase in the standard of living. It has to be admitted that we have to traverse a long distance before we can implement the objectives. It is essential, therefore, to develop basic and key industries essential for producing common goods. Among the producer goods industries, those in which India's dependence should be removed as early as possible are: automobiles; locomotives and wagons; shipbuilding, iron and steel; aluminium, rubber; power-hydro and thermal; mining and metallurgy; engineering industries including machinery of all kinds, machine tools and spare parts; defence industries—fire arms (land, air and marine) and their parts; munitions, cartridges, explosives, shells, torpedoes, etc., tanks and armoured cars and other forms of mechanical equipment especially designed for military purposes; warships of all types including submarines; military air-craft of all kinds; gases for warfare and gas-masks.

The following consumer goods industries have also got to be promoted for raising the standard of living of the people: Rice and flour mill industry; oil crushing industry; cane-crushing and gur making; cotton and woollen textiles; silk and art silk manufactures; plastics; sugar; starch; tobacco curing and cigarette manufacturing; dairy industry including manufacture of dried milk products; dehydration industry; fruit canning; paper; paint; leather and footwear; drugs and pharmaceuticals; electrical goods; potteries; celluloid; glass; cycles; sewing machine, etc.

For all-round industrialisation, it is necessary that indigenous services such as banking, insurance and shipping are also assisted and promoted

(b) Since the end of the war there has been a steady decline in industrial production. To begin with the volume of production should at least reach the installed capacity which is now lying idle. The following production figures of a few of the more important industries indicate the fall in production as compared both to installed capacity and peak production.

Production Trends

Industry	Unit	Installed capacity	Peak Production in best Year	Production in 1947	Production in 1948	Production in 1949
Coal	Million tons	30	30 (1947)	30	29·8	31
Steel	Thousand tons	1,264	1,166 (1943)	983	854	900
Cotton yarn	Million lbs.	Spindles 10,197,109	1,663 (1943)	1296	1445	1356
Cloth	Million yards	Looms 1,91,925	4,761 (1944)	3762	4338	3918
Sugar	Thousand tons	1,400	1208 (1939-40)	901*	1075*	1001*
Cement	”	2,803	..	1448	1553	2000
Paper and paper Board	”	110	108	93	98	104

*Seasonal (year ending October.

There has doubtless been some signs of an upward trend in a few instances in 1949. But they only further confirm the imperative need to generally step up production.

(c) The production cost has risen mainly due to high labour costs, rise in the prices of raw materials and high costs of repairs and renewals of machinery. While wage level has been increased, the output has not only not increased proportionately but actually has gone down. The greatest need of the hour is to increase the *per capita* output of the worker. Details about the overhead and operative costs, the committee trust, will be submitted by the industries concerned to the Fiscal Commission.

(d) In a competitive economy the quality of management is generally bound to be high as compared to State management and State sponsored management. Private management has got to be alert with a view to maintaining a place in the market; in other words, it has per force to see it is not out-competed.

(e) Capital supply has been affected on account of high direct taxation and the large diversion of national income to certain sections of the population which are not used to investment habit. In this connection, the Commission's particular attention is invited to the observations made in the covering letter.

(f) As pointed out before, the partition of the country has considerably affected the supply of raw materials to Indian industries. The raw material position in regard to raw jute, raw cotton and bamboos is far from satisfactory. We are dependent on imports to the extent of 4 million bales of raw jute and one million bales of raw cotton. There is scope to retrieve the position in the immediate future if our forest and agricultural resources are carefully protected and developed.

In 1948-49 we imported 119·3 million gallons of petroleum and 506 million gallons of various mineral oils. As far as coal reserves are concerned, we have unlimited resources of inferior grade coal but only a small fraction of the same is superior cooking coal of the standard suitable for iron ore melting. The country is, however, potentially well off in power resources, but such resources are yet to be developed. The country is deficient in diesel oil and petroleum. When our present Hydroelectric projects are completed they would considerably help in removing our deficiency in coal and petroleum.

(g) There is a definite shortage of technical ability of a specialised character. A comparative study recently undertaken by the Scientific Man-power Committee of the requirements for scientific and technical manpower reveals that there is a wide gap between the probable requirements and the anticipated output and the available sources of this manpower are inadequate to meet our requirements let alone having a small potential reserve to draw upon in case of emergency or unforseen circumstances. The gaps in this regard are both qualitative and quantitative. It would be worthwhile to establish centres in India and to encourage foreign experts of recognised merit to help the running of these institutions. The Commission's attention is also invited to the reply to Question 17.

(h) The supply of labour cannot be said to be inadequate but the efficiency is low.

(i) The efficiency of Indian labour which is low for various reasons has further fallen during recent years, although the wages have been on the increase. The go-slow tactics and the resort to strikes have had their inevitable consequences on production. It is also a matter of serious concern that due to the existing legislative enactments and the rather peculiar attitude taken by the Provincial

Governments, the management is not in a position to take any disciplinary action.

It has been estimated that in the Tata Iron & Steel Co. Ltd., whereas the average labour cost per ton of finished steel has gone up from Rs. 31·54 in 1939-40 to Rs. 92·80 in 1948-49 the average output of finished steel per employee has declined from 24·36 tons in 1939-40 to 16·30 tons in 1948-49. In the case of the Steel Corporation of Bengal, production during 1948 was less than in 1947 and the company is said to be employing 60 per cent. more men than it needs and the output is also smaller than before. As the following figures will show, productivity of labour has been fast declining in the various industries:—

Indices of productivity per worker

Year	Cotton textiles	Jute	Coal	Paper
1939	100	100	100	100
1941	94·9	96·5	97·8	115·5
1943	93·6	90·2	86·3	86·2
1945	90·7	90·0	72·9	93·1
1947	74·6	82·4	68·4	81·0

This shows that even if real wages had remained stationary, labour costs have gone up from 20 to 30 per cent. in all these major industries.

Labour costs to-day are the largest element in the total cost of production, next only to the cost of raw materials, and it is very necessary that these costs should come down if our economy is not to strangle itself by its cost of production. While in industrially advanced countries additions to the wages have tended to increase the efficiency of workers and increase output, the tendency in India has been for an increase in absenteeism and decline in output.

Question 7.—(a) Please give a broad analysis of the present position of small-scale and cottage industries in the economy of this country.

(b) What should be the relations between—

(i) small-scale and cottage industries and agriculture; and

(ii) small-scale and cottage industries and large-scale industries?

(a) Small-scale and cottage industries form an important constituent of the Indian economy. The proportion of factory labour to the total population is not very great. Not more than 3 million people are employed as industrial workers.

Among the cottage industries, handloom weaving industry is the most important and it provides occupation to 4/5ths of the workers in the textile industry. Although it supplies only 30 per cent. of the cloth consumed, it employs more than 85 per cent. of the textile workers. Other small-scale and medium-scale industries are:—

Bengal—Rice mills, pressing oil mills, tanneries, match factories, hosieries;

Bihar and Orissa—Mica, leather, lac oil; and cane crushing;

Bombay—Gold thread, textile printing, leather and metal handicrafts;

C.P.—Glass factories, brass and bell metal work, shellac, oil mills, flour mills, etc.;

Madras—Handspinning and weaving, tanning, silk worm rearing, etc.;

Punjab—Tanning and shoe-making, cutlery, sports gear, khandsari and raw sugar making;

U.P.—Carpet making, blanket weaving, embroidery, calico printing, gur and khandsari manufacture, etc.

Most of the industries are handicapped at present on account of lack of organisation, capital, etc. While in some cases the quality of the cottage industries goods are of very high order, no effort is made to secure uniformity and maintenance of quality. It is generally felt that though the appliances in use are crude and antiquated, it would be possible to adopt them in conjunction with small modern machinery so as to increase the rate of production and maintain the quality.

The development of cottage industries alongside that of large scale industries is necessary to make possible effective utilisation of the resources—human and material in the country.

(b) (i) Small-scale and cottage industries can be made to provide subsidiary occupation to agricultural labour side by side with their agricultural pursuits or during the periods they are free from their agricultural occupation thus relieving the chronic under-employment in agriculture and offering full time occupation to a large section of the population. These industries not only provide more employment but also help preventing seasonal exodus from the rural and urban areas.

(ii) In relation to the programme for industrialising the country on modern lines, small-scale and cottage industries should also find a place. The relation between small-scale and cottage industries and large-scale industries should be of a supplementary nature. The former should be developed in such a way that they supply some of the requirements of the large scale industries. Having regard to the necessity of encouraging only optimum scale of operations, it will be necessary to judge each cottage industry separately. But the main criterion to be followed should be that where the industry requires lesser amount of capital and greater number of workers to be employed, cottage industries should be encouraged. But in the reverse case, it is no use encouraging cottage industries for it will mean aiding an inefficient unit in the face of a more efficient one. It may be noted that even in regard to cottage industries it is desirable to popularise modern methods of production.

Question. 8.—Do you think small-scale and cottage industries have a significant role to play in the economic development of our country (a) under present circumstances and (b) in the long run,

As it is not in every case that large-scale production is necessary even from an economic standpoint small-scale and cottage industries have a significant part to play in the economic development of our country. The size of operation depends on the nature of the product and the conditions of demand. The operative efficiency of some manufactories depend upon the extent to which attention is given by the human hand. Small-scale industries find an important place even in the economy of advanced industrial countries. In an agricultural country with an increasing population ratio like India cottage industries are subsidiary to agriculture and the encouragement of these industries on a sound economic basis is essential.

(a) At present the cottage industries could help making available increased supplies thus meeting the inflationary potential to some extent.

(b) In the long run as well, if small-scale industries could be more scientifically designed and operated, it will be possible to ensure greater employment and regional balance. These industries could be utilised to filling the gaps in industrialisation.

SECTION A (ii)

Question 9.—Please enumerate the small-scale and cottage industries which you would like to develop

(a) as subsidiary to agriculture;

(b) as supplementary to large-scale industries;

(c) as other independent units of production.

(a) The following industries should be developed as subsidiary to agriculture:—

Rural industries like dairy farming, poultry farming, bee-keeping, sericulture, sheep breeding, fruit cultivation, flour grinding dal milling, gur making, etc.

(b) The following small-scale and cottage industries, among others, could be developed as supplementary to large-scale industries:—

Handloom weaving, bell-metal industries and cutlery, sports gear, watch manufacture, motor repairing, soap manufacture, manufacuture of textile wooden parts, pickers, copper and aluminium ware, hosiery, dyeing and bleaching, etc.

(c) Artistic crafts and other urban industries, such as, shoe and chappel making, toymaking, blacksmithy, cutlery and locks, dye making, pottery, carpentary, confectionery, scent manufacture, etc., may be developed as independent units of production.

Question 10.—Which cottage industries you consider specially suited for export purposes?

Artistic crafts expressing Indian genius and specialities are best suited for export, *e.g.*, carpet making, bell-betal ware, carving and inlaying, etc. There are other items such as embriodery material, lac and lac products, Indian Confectionery Products like morabbas which are very suitable for export purposes. It is, however, necessary to first ensure that supplies are regular and the supplies conform to some recognised standards before attempting to publicise these goods abroad. With regard to the question of standardisation of the quality of goods, it must be borne in mind that it is not desirable to be hasty and to give immediate effect to compulsory provision in the case of all commodities. Before standardisation for exports can be insisted upon, extensive survey of the consumer's preference in the various export markets must be made. Discretion must be exercised as to the class of goods in respect of which standardisation could be insisted on for the purpose of exports.

Question 11.—Do you consider that protection to large scale industries has in any way affected small-scale and cottage industries? If so, please state how and to what extent they have been so affected.

The Committee are not aware of any particular small scale industry which has been adversely affected by the protection granted to large-scale industries.

Question 12.—What in your view are the main handicaps from which small-scale and cottage industries suffer at present? What steps would you recommend for the removal of these handicaps—particularly with regard to—

(*a*) *the supply of raw material;*

(*b*) *supply of technical skill;*

(*c*) *their technique of manufacture;*

(*d*) *their structure and organization;*

(*e*) *supply of finance;*

(*f*) *marketing facility;*

(*g*) *any other form of assistance; and*

(*h*) *possible competition with large-scale industries?*

Please refer to reply given to Question 7(a) for first part of the above question.

It is essential to encourage establishment of voluntary associations of small-scale and cottage industries to look after the interests of these industries. These Associations would be helpful in procuring and distributing raw material. The Associations could also undertake to study the market conditions and the changes in the tastes of the consumers, so that appropriate and timely action may be taken in regard to the *quantum* of manufactures and designs of products. It may also be necessary to encourage co-operative use of certain types of plants so that the overhead charges may be distributed over a large number of persons. Some State assistance might also be given after insisting upon the societies being run on certain standard lines. The provision of cheap electricity by the State would also encourage the modernisation of cottage industries. In respect of exports of handicrafts, Government should undertake to arrange for publicity and sale of the same in their show rooms and exhibitions. Primarily the manufacture of specialities and quality products should be encouraged so that competition with large-scale industries may be avoided.

Question 13.—What steps should be taken to ensure that the interests of small-scale and cottage industries are safeguarded, when trade agreements with foreign countries are negotiated?

Foreign imports, if regulated as they should be, are not likely to affect Indian cottage industries. While negotiating trade agreements, however, export of products of cottage industries should be borne in mind.

SECTION B

Policy of discriminating protection and its application since 1923.

Question 14.—The Fiscal Commission appointed by the Government of India in 1921 recommended "that discrimination should be exercised in the selection of industries for protection, and in the degree of protection afforded, so as to make the inevitable burden on the community as light as is consistent with the due development of industries". On the strength of this basic principle the Commission decided that an industry seeking protection or assistance should satisfy the three conditions enumerated in paragraph 1 of the note. Besides tariff protection the Commission recommended also certain non-fiscal measures. Are you satisfied that the policy recommended by the Commission was fully implemented between 1923-1939? If not, please enumerate the main deviations from the policy.

Question 5.—Do you find any defects in the working of this policy? If so, please give details with suitable examples.

The majority opinion of the Fiscal Commission (1922) which was accepted by the Government of India, recommended a policy of discriminating protection for Indian industry. Under the system of discriminating protection, certain pre-requisite conditions were stipulated before an industry was eligible for protection by a customs tariff.

Time has borne out that the apprehensions expressed in the Minute of Dissent to the Fiscal Commission's Report that the main recommendation of protection had been hedged in by conditions and provisions which were calculated to impair its utility and that the emphasis placed on carrying out of the policy according to the prescribed conditions obscured the vital issue of bringing about intense industrialisation were not unfounded. On more than one occasion, there was a difference between the interpretation of the Tariff Board and the Government of India in regard to the first condition precedent to the grant of protection to industries as laid down by the Fiscal Commission (Majority), *viz.*, abundant supply of raw materials, cheap power, sufficient supply of labour and a large home market. Wherever the Tariff Board took a wider and progressive outlook, the Government of India disregarded the recommendations of the Board stressing the conditions laid down by the Fiscal Commission (Majority).

The policy of the so-called "discriminating protection" was defective both in principle and administration. The question of protection *vis-a-vis* industrialisation was not considered in the correct perspective. The countries which are successfully industrialised have not been weighed with the conditions and stipulations which the Fiscal Commission (Majority) in India placed for grant of protection.

The wordings, however, of the Fiscal Commission's recommendations could be construed to encourage "developmental protection," but what was actually made available to Indian industry was only of a mild safeguardnig variety. The Steel Industry Protection Act of 1927 introduced the system of preferential duties in favour of British Manufactures. The preferential duties on iron and steel were further altered by an agreement supplementary to the Indo-British Trade Agreement of 1932. The Tariff Board on Heavy Chemical Industry (1929) felt that the absence of sulphur in India was not an insuperable objection for the development of Chemical Industries and the protective tariffs. According to the Board, the conditions laid down by the Fiscal Commission were intelligible only with reference to the cost of an industry. On the basis of this interpretation, the Board also recommended protection to glass industry, although soda-ash was not available in India, pointing out that dependence on foreign materials was not a bar to protection provided final costs justified it. The glass industry was, however, denied protection by the Government on the ground that the raw material aspect of the conditions adumberated by the Fiscal Commission (Majority,) was not satisfied. In other words, glass industry was denied protection as soda-ash was not available in the country. Raw materials for soda-ash were, however, there, but it was not being manufactured. It is a case therefore of refusing protection as another industry has not developed rather than absence of raw materials. This is an instance which shows how the pre-war policy of the so-called "discriminating protection" was hardly discriminating. Had the glass industry not possessed sufficient natural advantages, it would not have shown the capacity for expansion that it did, both during the inter-war period when it had to face severe foreign competition and during the war when although foreign competition was temporarily absent the industry had to face handicaps regarding raw materials and transport. The dependence on soda-ash may be a drawback, but it has by no means proved to be a permanent one and is more than counterbalanced by natural advantages in other respects.

Q. 16.—Do you agree with the specific conditions laid down by the Commission that normally protection should be accorded to an industry only if the conditions referred to in Q. 14 are satisfied?

The Committee do not agree with the rather restrictive conditions laid down by the Fiscal Commission. In their considered opinion, the approach of the Fiscal Commission (Majority) to the problem of industrialisation was half-hearted and faulty. The view of the Fiscal Commission (Majority) that India for many years to come was likely to concentrate on simpler forms of manufactured goods ignored the aspirations of the Indian public that India should rise as rapidly as possible to a commanding position in the industrial world. Moreover the conditions laid down by the Fiscal Commission (Majority) are rigid. The first condition regarding raw materials is one ultimately connected with costs of production. The raw material aspect has been ignored by countries which have followed successfully a policy of protection. It is well-known that the U.K. and Japan became leading manufacturers of cotton textiles without growing a single bale of cotton. The jute industry of Dundee is another example of a manufacturing industry being developed without the production of raw materials at home. Again the iron and steel industry of Japan depended for its growth exclusively on her imports of pig iron from India and Russia. The second condition laid down by the Fiscal Commission (Majority) is redundant and superfluous. As regards the third condition it is very difficult for any one to predict with accuracy whether the industry can stand eventually without protection. All that can be expected is an intelligent estimate of probabilities and not a definite statement.

Q. 17.—Do you consider that the "supplementary measures" for the protection of and assistance to, industries as recommended by the Commission in Chapter VIII of their Report were adequate and well conceived?

The Fiscal Commission conceded that the mere imposition of protective duties, however, scientifically contrived, would not by itself produce full industrial development. Some supplementary measures, such as industrial bias to education, appropriate revision of railway rate policy, lowering of coastal shipping rates and anti-dumping measures to accelerate Indian industrial development were recommended by the Fiscal Commission. These recommendations were well conceived, but hardly followed. Further no plans were even visualised in regard to developing industrial research and organising industrial statistics.

(i) Technical Education and Training:

However, dexterous the Indian craftsmen may be in the use of their hands, far too few of them have had any technical training. Education imparted in the schools has not also tended to equip young men for modern industry. Some progress is no doubt attempted in the direction of establishing higher technical institutions on the model of the Massachusetts Institute of Technology and there are also plans in operation for sending students abroad for post-graduate and research work and for practical training. A precaution appears necessary as to how we train our personnel. In a competitive world, the person with a fundamental knowledge of materials, tools and processes is more likely to make headway than another with only an academic acquaintance of things. The deficiencies in technical knowledge which constitute a serious and immediate obstacle to economic progress should be removed as early as possible. Attempts should be made to bring about close co-ordination between industry and institutions of industrial and technical training so as to ensure the turning out of personnel required by industry. It is also essential to provide the requisite facilities for giving the necessary training and equipment to the craftsmen in villages for re-organisation of the cottage industries on modern lines.

(ii) Railway rates policy:

As rightly pointed out by the Commission, the railway rates policy has an important bearing on the success of the policy of protection. Till recently there existed side by side State-managed railways and Company-managed railways and each railway system endeavoured to preserve and desired to be treated as separate units in rate-making etc. The Indian Railways Act, 1890, did not also prevent the railways from treating themselves as separate and independent units for rate-making or compel them to regulate their individual rates on the basis of rates charged on other systems or to have regard to the total lead of the traffic or to lead of the other systems in fixing their portions of the rate for through traffc. The Act also did not require the railways to adopt telescopic rates. It was generally felt that Indian industries did not receive sympathetic treatment and co-operation from the Railways particularly in respect of providing transport facilities from the internal centres of production to internal markets. The Indian Tariff Board found in their enquiry into the Heavy Chemicals Industry that railways had it in their power to give or cancel protection to industries by quoting special rates or manipulating rates within the wide margin left between the maxima and the minima. Individual manufacturers had to depend on individual railway adminstrations for obtaining satisfactory rates. This system seldom led to uniformity or created security in the minds of the users of railways. The Tariff Board concluded that the possibility of organising the chemical industry on a satisfactory basis depended to a great extent on the fixation of lower freight rates. The Railway Rates Advisory Committee in an enquiry into the rates of cotton observed:—

> 'It seems also desirable, if possible, to obviate the criticism that the Indian system of rate-making is such as to enable the foreign manufacturer, no doubt enjoying the advantage of a cheap sea route, but nevertheless thousands of miles away, to import cotton from India to his shores cheaper than the Indian millowner in Howrah. The total freight to Japan from Lyallpur works out to be Rs. 2-14-1 as against Rs. 3-11-1, the current rate to Howrah *via* Saharanpur. The position is nearly the same with regard to many European countries using Indian cotton'.

It was also held, not without justification, that the railways fostered import and export traffic at the expense of internal movements, while sheltering behind an incomprehensible rating system. It is only recently that there is a move to meet the persistent demand for simplification of the Indian Railways rating structure and for a re-orientation of railway rating policy along nationalistic lines. By and large, it may be stated, there is still great scope for improving the service which the railways can extend to the trade and industry. Consistent with improved service, it is possible to effect economy in operation thus assisting the movement of goods quickly and cheaply. In the interests of inculcating a greater sense of responsibility in the mind of railway administration, it would be desirable that traffic is moved at railway risk.

(iii) Lowering of coastal shipping rates:

Referring to rates which showed a great disparity between the charges on goods shipped from one Indian port to another and those on goods conveyed between Indian and foreign countries, the Fiscal Commission stated that such disparities more than neutralised the natural protection which an Indian product might expect to receive in its own country by reason of the distance of foreign manufacturing centres. The Commission expressed the belief that a successful issue to the policy of encouraging an Indian mercantile marine should have a favourable effect on coastal freight rates and assist industrial development. From the point of view of Indian shipping, however, the main reason why it has not made any headway even in its own home waters was the hostile

attitude of the well-entrenched British shipping interests which were patronised by the then Government of India. It is, however heartening to note that the National Government has recognised the need to foster Indian shipping.

(iv) Anti-dumping measures:

That dumping in the sense of sale of imported goods at a lower price than charged for the same goods in the country of production would diminish or cancel protection designed for a domestic industry was recognised by the Fiscal Commission. Although the Commission felt that it was not necessary to enact anti-dumping legislation with immediate effect, they did not rule out the possibility that such action might be required. The Commission therefore recommended that the Government should consider the desirabilty of introducing a measure on the lines of that passed in the United States whereby powers should be taken to impose a dumping duty when after euquiry by the Tariff Board it has been established that dumping is taking place and that it is injuring or is likely to injure an Indian industry. It may, however, be noted that although protection which was granted to Indian industries could be traced to conditions of unfair competition brought about by monopolies, exchange depreciations, overproduction, etc., the Government did not provide for any definite anti-dumping legislation.

Considering that besides the United States, Canada, Australia, New Zealand, etc., have laws against dumping, it is worth while for India also to have an anti-dumping Act to offset sporadic or systematic dumping. It may also be necessary to bring low-price sale, price cutting and unfair competition under the purview of this anti-dumping Act. Legislation against dumping should be comprehensive enough to cover every aspect of it. Moreover to facilitate prompt assistance to indigenous industries, it should be left to the Government to take necessary action on the submission of *prima facie* evidence that the import price is less than the fair market value in the exporting country. Subsequent enquiry by the Tariff Board might be undertaken for purposes of continuing or dropping the action taken by the Government.

Q. 18.—*In a Resolution passed in the Central Legislative Assembly on the 16th February 1923, the principle of discriminating protection was accepted as the basis of Government policy subject to the following general qualifications:—*

(a) that the principle should be applied with due regard to the well-being of the community and to the safeguards mentioned in Q. 14.

(b) that in the application of this principle, regard must be had to the financial needs of the country, and to the then dependence of the Government of India on import, export and excise duties for a large part of its revenue.

To what extent, if any, do you think these qualifications affected the working of the policy of discriminating protection between the years 1923 and 1939? Please give your comments, if possible, separately for the following sub-periods:—

(*i*) 1923—29.

(*ii*) 1930—34.

(*iii*) 1935—39.

It has been pointed out in the answer to questions 14 and 15 how the Government made available to Indian industry protection of a mild safe-guarding variety only although the triple conditions laid down by the Fiscal Commission could be liberally interpreted. Moreover the emphasis on budget or revenue considerations resulted in an overcautious adoption of the policy of protection.

It has not been appreciated that industrial development alone would provide a more suitable and expanding source of revenue to the State. If latterly, the Government have been placing more and more reliance on direct taxes and excise duties, it is because that some industries in the country have developed. It is therefore idle to speak of immediate losses of customs revenue on account of the policy of protection without taking into account the benefits accruing to the internal economy.

Q. 19.—The changes set out in paragraph 4 of the note were made in the principle of discriminating protection in 1945 when the Interim Tariff Board was established. What are your views on these deviations from the original policy as laid down in the Indian Fiscal Commission's Report?

According to the terms of reference to the Interim Tariff Board, which was appointed in November 1945 pursuant to Paragraph VI of the Statement of Government's Industrial Policy published on 21st April 1945, the conditions of protection have been liberalised and it is a change in the right direction. The alternative provided for the existence of natural resources in the shape of economic advantages is an important departure in policy and reflects public opinion which is in favour of rapid industrialisation. Under the new conditions even if some of the raw materials are not available in the country an industry may be entitled to protection on the strength of its other economic advantages.

It must, however, be noted that it is only when an industry satisfies the condition (1) and condition (2) (a) or (b) that it can be said to have established a claim for protection or assistance. Condition (1) relates to proving that the industry is established and conducted on sound business lines. In certain circumstances unless protection is guaranteed in advance new industries may not be established. From the conditions laid down for protection it would appear that an industry should be established before it can apply for protection. Moreover it may not be possible for every industry which applies for protection to prove that it is conducted on 'sound business lines'. Much will, therefore, depend upon how this condition is interpreted by the Board. It is presumed that the Board is not expected to apply his condition very rigorously in view of the existing abnormal conditions. It is therefore of vital significance that real assistance to nascent and growing industries will depend as much on the general principles of fiscal policy as on their application in the right spirit.

Q. 20.—Are you satisfied that this policy of 1945 is being fully implemented? If not, please indicate where, in your opinion, the defects in implementation lie.

Some 49 cases, it is understood, have been referred to the Tariff Board upto January 31, 1949. The Board was able to consider 42 cases and report upon them to Government. 38 of them were war-time industries and 4 were old-established industries, *viz.*, cotton textiles, steel, paper and sugar. It would seem that in the beginning owing to the constitutional changes that were impending the recommendations of the Board were unavoidably postponed. The delay has been minimised in the case of the subsequent enquiries. It is hardly necessary to stress that both the Board and the Government should arrive at decisions within the shortest possible time with a view to enabling the industry applying for protection to know where it stands. The Tariff Board which was re-constituted in November 1947 has been entrusted with two additional functions, *viz.*

1. To report to Government, as and when required, factors that lead to increase in the cost of production of Indian manufactured goods as against imported articles; and

2. To advise Government, as and when required, on measures whereby internal production may be secured on the most economical cost basis.

Considering that the Tariff Board has been entrusted with additional and complicated functions such as computation of costs, it is absolutely necessary that the Board should be assisted by qualified and recognised experts in the line. It would seem that such assistance is wanting in view of the report that the Tariff Board's recommendation on cotton, yarn and cloth prices is said to be based on data and facts which do not seem to be scientifically accurate and that the report contains material miscalculations.

Section C

Review of the effects of past tariff policy

Q. 21.—Would you attempt a broad analysis of the effects of the actual policy pursued by the Government of the day on the growth and development of our major industries under the following heads:—

(a) *Capital invested in the industry (paid up);*
(b) *Rated capacity;*
(c) *Output;*
(d) *Employment of labour (Technical and non-technical);*
(e) *Wage bill (technical and non-technical);*
(f) *Earnings of management;*
(g) *Profits earned and distributed;*
(h) *Ex-works price and retail price?*

Question 22.—Would you make a detailed analysis on the above lines particularly in respect of the following industries:—

(i) *Iron & Steel,*
(ii) *Cotton textiles,*
(iiii) *Sugar,*
(iv) *Paper,*
(v) *Matches?*

Please give your answer for the following periods:

(a) *at the time when protection was given;*
(b) *in 1938-39;*
(c) *in 1948-49.*

Question 23.—(a) Please indicate the significant features, if any, in the structure and organization of the protected and assisted industries with respect to—

(i) *the size of the units;*
(ii) *their location;*
(iii) *the development of combinations, horizontal or vertical;*
(iv) *the developments of ancillary industries; and*
(v) *any other aspect that you may consider it necessary to mention.*

(b) *Do you think that the form or manner in which protection or assistance has been given to these industries has had anything to do with these features? Which of these features are in the interests of our economy and which are undesirable?*

Question 24.—If you consider that the undesirable features mentioned, if any, were due to any defects or deficiencies in the control exercised by Government over the protected or assisted industries, please point out such defects or deficiencies.

Question 25.—To what extent has the protection or assistances afforded to an industry resulted—

(i) *its progressive mechanization;*

(ii) *the introduction of new economies and other technical improvements; and*

(iii) *the optimum utilisation of indigenous raw material and bye-products?*

Please illustrate with examples drawn from your knowledge or experience.

Question 26.—Has the protection or assistance received by our industries induced any substantial increase in the supply of—

(a) *technical personnel required by the industries;*

(b) *skilled labour;*

(c) *semi-skilled labour;*

(d) *a stablized industrial labour force?*

Question 27.—To what extent, if any, has industrial research been initiated and fostered by the protected and assisted industries?

Ans. 21—27.—The Committee presume that the details regarding the growth and development of protected industries as well as the other particulars called for will be furnished to the Fiscal Commission by the industries concerned.

Question 28.—Do you consider that the revenue tariffs imposed in the past have had any appreciable effect on the growth and development of our industries and on the course of our export and import trade? If so, would you illustrate your finding with some examples drawn from the trade or industry of which you have knowledge or experience?

The early trade history of India was largely characterised by the Free Trade doctrine imposed by Great Britain. With the exception of a few low duties for revenue purposes, trade was entirely unfetterred. Even those low duties were removed between 1882 and 1894. When they were re-imposed, their protective effect was neutralised by counter-vailing excise duties. Comparatively high import duties came to be imposed only during the inter-war period. It may be stated that revenue duties, as such, constituted an important source of income to Government, but they did not assist the growth and development of our industries. Since the Ottawa Pact, however, the commercial policy of the Government of India was avowedly designed to fit in the scheme of inter-imperial trade evolved for the formation of economic groups of countries.

Question 29.—(a) What were the broad effects of the tariff policy pursued by Government between 1923 and 1939 on the volume, character and geographical distribution of our (i) import, and (ii) export trade?

(b) To what extent was the relative importance of our domestic and foreign trade affected by this policy during this period?

(*a*) & (*b*) India had a passive role to play in the implementation of her commercial policies. As indicated earlier, India's foreign trade was primarily designed to safeguard prominent interests in the United Kingdom. In other words, the pattern of our foreign trade was not suited to the needs of the country. During the period 1923 to 1939, the general position remained the same. World forces, however, had their inevitable effect on our foreign trade. Between 1920 and 1924 a full recovery of India's trade was prevented by a rampant growth of economic nationalism. During the next period from 1925 to 1929 India's foreign trade reached the peak position. The years 1930 to 1939 marked the

Depression and post-Depression periods. It may, however, be pointed out that the imports of the products related to the protected industries came down and the internal trade in those items had correspondingly increased.

Question 30.—*Do you think that the development of any of the protected industries was hampered by the policies pursued or the measures adopted by Government with regard to matters other than protection? Please give examples.*

Protection is intended to help the indigenous industry to stand on its own legs as early as possible. State interference which results in rigidity in the cost of production of the protected industries is unjustifiable. For instance, Government policy in respect of fixation of minimum prices of sugarcane disturbed the natural economic adjustment of demand and supply. Again the policy of levying import duty on cotton reduced the competitive capacity of the Indian textile industry.

SECTION D

Factors in the formulation of a new Fiscal Policy

Question 31.—*What in your assessment is the relative importance of the main changes in the pattern of our foreign trade which have taken place in the periods—*

(*a*) 1939—45.
(*b*) 1946—49.

Immediately after the outbreak of the Second World War in September 1939 there was a decline in the quantum of India's foreign trade, imports falling to a greater extent than exports. Later there has been a complete reversal in the country's foreign trade position. There has been growing an adverse balance of trade reaching the record figure of about Rs. 250 crores in 1948-49.

As for the direction of India's foreign trade, the share of the Empire and the U. K. has been declining more in respect of imports than exports. Further, the share of the U.S.A. in the import and export trade of India has been growing.

The following figures substantiate the above statements:
Index of physical volume of the trade (1938=100) Merchandise.

	Imports	Exports
1938	100·0	100·0
1939	104·7	103·2
1940	86·4	98·8
1941	80·6	95·7
1942	41·1	74·2
1943	38·9	51·2
1944	69·5	57·7
1945	93·0	57·1
1946	82·2	66·2
1947*	96·4	67·4
1948 **	86·6	61·4
1949 January	115·2	62·3
February	102·3	65·8
March	125·9	57·2
April	121·3	57·6
May	149·0	48.2
June	132·4	69·1
July	133·6	53·3

* Average for first seven months only.
** Average for nine months, April to December.

Direction of Trade

Year	% Share in imports U.K.	Br. Empire countries Total	U.S.A.	Foreign countries Total	% Share in exports U.K.	Br. Empire countries Total	U.S.A.	Foreign countries Total
1920-21. . .	61	66	11	34	22	43	15	57
1924-25 . . .	54	62	6	38	26	39	9	61
1928-29 . . .	45	54	7	46	21	35	12	65
1932-33 . . .	37	45	8	55	28	45	7	55
1936-37 . . .	38	49	7	51	33	47	10	53
1938-39. . .	31	58	6	42	34	54	8	46
1942-43 . . .	26	55	19	45	30	66	15	34
1946-47 . . .	34	55	21	45	24	50	25	50

The changes in the pattern of our foreign trade are partly the result of economic forces working in the country and partly those operating abroad from time to time. The abnormal conditions during the war years inevitably subjected foreign trade to considerable vicissitudes and dislocations. Such frequent changes as have occurred in respect of imports of specific goods correspond to the modifications in the restrictions on trade. So far as the export trade is concerned an important feature is that there has been an increase in the exports of semi-manufactured and manufactured goods. It may be said that this trend has come to stay. In respect of the adverse trade balance, it may be noted that it is mainly due to the importation of food and raw materials like raw jute and raw cotton. The reduction in expenditure in respect of these items will depend on our efforts in improving indigenous production.

Question 32.—Would you briefly analyse the effects of the (a) legislative, and (b) administrative measures relating to the control and regulation of our foreign trade which Government have had to adopt during these periods on—

(a) our import and export trade; and

(b) the growth and development of our industries?

(a) On account of the dislocations caused by the War and later because of uncertain conditions of the post-war period, the system of controls has come into force in almost every country. The efficiency with which these controls are operated depend upon the administrative efficiency and honesty obtaining in the countries concerned. Due to administrative inexperience, the operation of control in India has led to avoidable inconvenience and hardship to the trading community and the consumers. The system of controls has also encouraged the abuse of power by those in authority. Serious delays, high-handed disposal of matters, favouritism and other undesirable features of the system of controls have come into existence. Further, the frequent changes in Government's policy in regard to the issue of licences confuse the parties concerned and stand in the way of smooth implementation of the programme of the industry and trade causing avoidable difficulties and losses.

As far as the regulation of import trade is concerned, it is undertaken with the limited objective of allocating our foreign exchange resources. Government could have done better by way of designing this regulation in such a way as to primarily assist the existing indigenous industries and the promotion of new ones.

Our export policy has also suffered from severe limitations. As pointed out by the Export Promotion Committee, the export of articles had been restricted sometimes without tangible reasons. Again when exports are allowed they are hedged round with such conditions regarding licensing, prices, duties. etc., as to make fulfilment extremely difficult. The effect of the quota system and the reservation of a percentage of the trade to new comers has led to serious complaints from foreign buyers as regards the quality of goods supplied and non-fulfilment of contractual obligations and if this were to persist we might lose our export markets which have been so assiduously built up.

These legislative and administrative measures have influenced working of industries. It may, however, be stated that the controls on imports have to some extent indirectly assisted the growth of new industries, as evidenced during the war period, *e.g.*, Engineering industries such as Alloy and Tool Steel, Small Tools and Machine Tools etc.

Question 33.—To what extent have these changes affected the fundamental premises on which the recommendations of the Indian Fiscal Commission 1921-22 were based? Please illustrate your reply with examples drawn from the trade or industries with which you may be concerned or about which you may possess adequate knowledge.

Sheer force of circumstances enabled the growth of a number of war time industries among which may be included the 38 industries that had been referred to the Tariff Board to investigate their claims for protection. This goes to prove that given an adequate shelter it should not be an insuperable difficulty to establish new lines of manufacture in the country. It also shows that it is wrong to insist that an industry should first establish itself and then ask for protection. If a market is ensured new types of manufacture are bound to be undertaken. State assistance has to be given therefore to all reasonable plans of production.

Question 34.—In the light of your analysis and appreciation what is the relative importance you would attach under present day conditions to governmental measures for the promotion of our trade and industry which may be broadly classified under the following heads:

(a) *Fiscal measures;*

(b) *Non-fiscal measures?*

In view of the comparative undeveloped nature of the Indian economy, the State should assist private enterprise so that trade and industry may be promoted as rapidly and adequately as possible. Fiscal assistance, such as, protection, subsidies, quantitative restrictions should be extended and the exact nature of assistance must naturally depend upon the needs of the industry concerned. Among other measures which the Government might usefully adopt is the revision of the taxation structure of the country on scientific lines. It has been acknowledged even by the Government that the present tax structure is neither economic nor suited to the needs of the country. In view of the fact that any industrial development must be related to the savings of the community, Government's general economic policy should be to encourage the willingness and ability of the people to earn and save and canalise these savings into investment channels.

Question 35.—Would you indicate the extent to which an appropriate tariff policy can further our foreign trade and assist in the development of our industries?

Our foreign trade will no doubt be developed if the tariff policy is related to our basic economic policy. To talk of appropriate tariff policy has no relevance except if it is co-ordinated with economic policy. The most sympathetic tariff policy by itself will not be able to help much either trade or industry.

Question 36.—What, in your judgment, should be the objectives of tariff policy in the short period?

The objective of the tariff policy should be to assist such indigenous industries which require assistance through regulation of imports or by extending direct assistance by way of subsidies. The enquiries conducted during what may be called the transitional short period should have reference to the long-range policy. In other words the end in view should always be to develop the country's economy.

Question 37.—The minority report of the Indian Fiscal Commission 1921-22 *expressed the view 'that there should be an unqualified pronouncement that the fiscal policy best suited for India is protection'. Do you agree with this?*

If by protection is meant the mere levy of protective duties on competitive imports it is not enough, for such assistance alone may not be adequate for all times and under all circumstances. May be, State assistance will be more appropriate and effective in some other form than protection. The nature and extent of assistance that should be extended must be judged only on the merits of each case and in the light of an integrated scheme of development for the country.

Question 38.—If so, what principles and conditions would you lay down for regulating the grant of protection or assistance?

The question of protection for a country like India has a special significance. Protection to indigenous industries should be viewed in the context of the desirability to help the growth and development of the existing industries and to bring into employment our idle and unemployed resources, human and material. It is not correct, as in the past, to consider protection as an independent measure of assistance in itself. The claims for protection by an applicant industry should not be judged in isolation, but as part of the larger objective, *i.e.*, not merely to shut out imports but to develop our internal production to the level required by our new standards of living. It must be borne in mind that the efficiency of any one industry would depend on the simultaneous developments in the entire economic field. Our experience shows that competitive costs of production in any one industry do not depend only on the efficiency of the factors immediately connected with that industry alone. For instance in the case of the sugar industry the reduction in costs depends as much on the improvement in the operative efficiency of the industry as on achieving an increased yield of sugarcane per acre. It would be therefore desirable not to lay down specific conditions for regulating the grant of protection or assistance to indigenous industries. The Tariff Board should be directed to consider applications for protection in the light of the priorities that may be determined from time to time in respect of assisting the existing industries or promoting new industries. Protection is both a matter of principle and practice. It is imperative that essentials like food, habitation, clothing and defence should be secured as far as possible internally, for in various crises which await a State it must not be left to depend on foreign supplies.

Question 39.—Would you, in the application of the formula or principles, if any, or in the administration of the policy in general, like special consideration or priority to be given to any particular classes of industry? If so, please name the classes.

The question of assigning proper priorities to the different kinds of industries arises on account of the fact that at any given time the factors of production, *i.e.*, money, material and technical personnel are limited. It must, however, be stressed that since the development of various industries is inter-dependent, it is wrong to make any rigid classification of priorities. There is no doubt that the immediate establishment of basic and defence industries should be promoted. At the same time, it must be borne in mind that producer goods cannot be consumed by the individual citizen and the manufacture of producer goods also takes longer time than producing consumer goods. Therefore the greater the time that is taken for translating savings through production into consumption goods, the greater has the waiting to be done by the common man. As our objective should be as much to strengthen the Indian economy as to raise the standard of living of the common man, it will be desirable if the energies of the nation are concentrated on specific projects of reasonable magnitude whose productive value is definitely clear and assignable, and which, for this reason, could be explained to improve the general economic situation within a short period.

Question 40.—Do you agree with the view that the grant of protection should not be confined to infant industries, but should be considered, if necessary even before an industry is established or when proposals for its establishment are under consideration?

As indicated earlier, one of the major defects of the previous fiscal policy has been the condition laid down that protection should be extended to infant industries only. An industry need not necessarily be in an infant stage to be entitled for consideration. Even in the prenatal stages deserving industries should be assured of protection.

Question 41.—(a) Please indicate your views on the various alternative methods of protection, e.g.,

(i) protective import duty;

(ii) bounty or subsidy;

(iii) system of pool prices, e.g. the aluminium price pool which was in force till recently;

(iv) quantitative restriction of imports based on a guaranteed market for at least a percentage of domestic production (when such quantitative restrictions can be imposed without conflict with pre-existing agreements or commitments)?

(b) Which of these methods should be the normal methods?

(c) Would you like the appropriate method to be determined in each case on its merits? If so, what are the conditions you would like to bear in mind in selecting the method of protection?

(i) Protective import duty

(a) In the present set-up, protective tariffs have to be extensively used by India. These should enable not only the regulation of imports but in some cases assist the Government to obtain revenues. But protection by means of tariff is not necessarily the best in all cases.

(ii) Bounty or subsidy

Sometimes direct subsidies may be a better expedient. Where a rise in the price of the product of a protected industry is likely to adversely affect the interests of the consumers, subsidies are to be preferred to tariff protection. Again, where the chief handicap to an industry is not from foreign competition, subsidy rather than tariffs is a more suitable instrument of assistance. In view of our inadequate financial resources it would not be possible to subsidise on any extensive scale domestic industries.

(iii) System of Pool Prices

In regard to certain essential raw materials, the world supplies of which at any given time are short in relation to demand and for which the country has to depend partly on foreign supplies and where there is great disparity between the prices of indigenous and foreign supplies, it would be worth while to consider the adoption of a system of pool prices.

(iv) Quotas

Perhaps quotas are a more effective instrument for tariff bargaining and are more flexible than import duties for purposes of regulation of imports. Again where indigenous products are looked upon with prejudice by the consumers quantitative restriction on imports may assist the speedy development of the indigenous industry. But this measure has certain drawbacks. For one thing, it places a premium on administrative discretion relegating to the background both the trade and the consumers. It also necessitates a scheme of licensing and possibly subsequent rationing of the imported supplies to the consumers in the country. All this would mean perpetuation and introduction of new controls. Moreover quotas tend to destory price mechanism and free enterprise.

(b) In the opinion of the Committee none of them individually can be the normal method. Necessarily there should be a judicious combination of all of them according to the needs and requirements of a given industry.

(c) The measure to be adopted should be decided in each case on its merits. Where the industry concerned falls in the private sector, it should be given a chance to indicate its preference for the type of governmental assistance that it wishes to have.

Question 42.—What should be the Government's policy and procedure where the situation calls for only safeguarding or anti-dumping measures, as distinct from substantive protection, whether for small scale or large scale industries?

To abnormal foreign competition which takes the form of "dumping" and subsidised exports, it is best that the State adopts the direct method of control, *i.e.*, total prohibition or quantitative restrictions. For the procedure to be adopted in this behalf, please see reply to Question 17(iv).

***Question 43.** (a) What place would you assign to export duties in the tariff system in the future?*

(b) Would you advocate export control (by duties or otherwise) for the purpose of—

(i) safeguarding the domestic consumer against critical shortages:

(ii) conserving domestic supplies of raw materials for utilization by domestic industries?

(a) Export duties should not be levied as a revenue measure except to meet exceptional situations. For instance, recently the devaluation of the rupee in terms of the dollar made it possible to impose export duties on some articles

so as to ensure maximum foreign exchange and at the same time secure advantages resulting from devaluation distributed among the foreign importers, Indian manufactures and traders and the Exchequer. Export duties should not generally be looked upon as a source of revenue, for it is not fiscal or economic prudence. To rely on export duties for revenue purposes might result in injuring the export trade and also cause eventually damage to the fiscal system.

(b) It would be possible through export duties to restrict exports with a view to ensuring that supplies are available to meet the internal demand. Such duties, however, may not be of much use where foreign purchasers are prepared to pay any price for the articles required by them. The direct method such as ban on exports may be more effective and reliable to effectively conserve indigenous supplies.

Question 44.—What fiscal measures, if any, would you recommend to enable an established industry to maintain its exports?

Apart from the fact that we would not be able to afford export subsidies, such direct assistance might be construed as 'dumping' by the importing countries. Fiscal assistance could however be extended in the following manner:—

1. Tax relief.
2. Freight relief.
3. Customs relief.

1. Tax relief

As an inducement to exports, a refund of income-tax on a percentage of the profits made from exports might be given. In no case should goods exported be liable to sales tax.

2. Freight relief

In the new political and economic set up it is desirable that freight to the ports should be given substantial advantage. Of particular importance is the provision of rail transport facilities by way of special rates and wagons to our exports to Pakistan.

3. Customs relief

Exporters might be given rebate facility to collect in specific instances in respect of import duties already paid on goods that are re-exported and on such imported articles used in the manufacture of export items.

Question 45.—Have you any comments on the method by which the Tariff Board at present fixes the quantum of protection (the method of comparing the fair selling price of the domestic product with the landed cost of the imported product)?

There are certain drawbacks inherent in this procedure. As pointed out by the Australian Tariff Board in their Report dated 30th June, 1945, there is no method of arriving at the cost of production for which unchallengeable accuracy can be claimed during a period of even a few years. Even in a single factory making a single article in a single type or variety, costs per unit vary with the volume of production, with rates of wages with price of raw materials with changes in other items of costs and in methods of production. Furthermore, single factories generally produce a number of types, varieties or sizes of a single article, or even produce, two or more quite dissimilar articles. Some important

items of cost that are incurred in operating the business as a whole must be distributed among such articles if the total cost of any one is to be ascertained. Any method of doing this is bound to be more or less arbitrary and will depend upon the preference of the individual concerned. For these reasons costs of an article generally vary from factory to factory even if conditions seem to warrant little or no difference between them.

Latterly the Indian practice seems to be to take the most efficient firm as the criterion. This is not scientific under product differentiation and in a market where there is imperfect competition. The average cost of a few representative firms may be a more satisfactory proposition.

Moreover it is understood that the cost accounting officers attached to the Tariff Board sometimes disallow items of costs mentioned by the domestic factories. This has led to reducing the quantum of protection extended to the domestic industries. The Tariff Board should not therefore have the power to disallow any items of expenditure which are actually incurred by the units of an industry seeking protection, in determining the quantum of protection or fixing a fair selling price. This will not, however, preclude the Board from making any recommendation to the Government for their consideration where they (Board) feel that particular items of expenditure are unduly high and detrimental in the larger interest of the community as a whole. In case the Board do not accept the data given by the applicants, then the Board should first inform the applicants concerned about their views before putting up recommendations to the Government.

It is essential that fair and reasonable prices are fixed by the Tariff Board, after taking into consideration all relevant factors such as cost of capital goods and equipment, replacement costs, costs of raw materials, etc. Depreciation allowance on the existing plant should be reckoned on the basis of replacement value of the said plant with a view to facilitating substitution of old and worn out machinery by new machinery which has to be purchased at prevailing high prices. The protection that may be extended should be adequate enough to provide for fair and reasonable profits computed on capital employed in business so that capital might be attracted and there may be incentive to greater and improved production. Moreover, in view of the high rate of taxation and high cost of living, the rate of return on capital employed should be fixed at an attractively high level.

Question 46.—Would you recommend variations in duties to meet variations in import costs?

In spite of the difficulties encountered in the method of cost comparisons in assessing duties, it will not be correct to effect frequent changes in duties, as this will lead to avoidable confusion. Apart from that neither the Parliament nor the revising authorities can deal frequently with single tariff items, except at the expense of neglecting others. Economic conditions do not remain constant in any country and the differences between countries also change continually. Thus even if duties could be fixed accurately to balance costs at any point of time, they would before long lose that accuracy.

Question 47.—Where protection is to be given by tariffs, what are the considerations which you think should govern the choice between the various alternative forms of duty such as specific, ad valorem, *compound, etc.*

An *ad valorem* duty is based upon the value of the commodity imported and is expressed in terms of a fixed percentage of the value per physical unit. On the other hand the specific duty is a definite sum charged upon each weight or measure of the commodity imported. Under a system of mixed duties, the practice is to adopt either an alternative duty, *i.e.*, an *ad valorem* rate or specific

rate whichever is higher or a compound duty, *i.e.*, a specific rate and an *ad valorem* rate both together.

In each case the basis of the charge has to be decided upon in accordance with the nature of the goods the stage of manufacture; the customary units of sale, so far as possible in the trades concerned; administrative convenience and accuracy of assessment and of the forecast of the yield; and the object of the taxes, for instance the degree of protection intended having regard to the conditions at the source of supply. The effect of *ad valorem* rates as a protective measure is the greatest when the prices are high. But where there are seasonal fluctuations and difficulty in assessing the value of the goods, *ad valorem* duties would provide difficulty to administration as well as to the industry and trade. Specific duties also do not constitute sufficient protective measure in a rising market. Moreover specific duties have the disadvantage that they cannot well be applied to highly specialised goods without much prior enquiry as to the precise limits of such class and rate, and a very complicated classification would arise. Specific duties also press heavily than *ad valorem* duties on the cheaper grade commodities. Where it is deemed necessary to encourage high grade manufacture within the country, specific duties on imports can only be really effective if special rates are related to different qualities, and this approaches *ad valorem* taxation. A mixed duty is also a mixed blessing. While all the difficulties of classification and valuation remain, the advantage in such a duty is that it lessens the regressive effect of a specific duty and it produces a steadier yield than an *ad valorem* duty.

Where protection is to be given by tariffs, the appropriate duty that has to be chosen will depend upon the price level, the nature of the commodity and the degree of protection to be granted.

Question 48.—*What do you think of the utility and practicability of tariff quotas?*

The idea behind tariff quotas is to levy a lower rate of duty on imports within a specified quantity and a higher rate on imports in excess thereof. As compared to quantitative quotas, tariff quotas are less restrictive. Further tariff quotas do not generally suffer from drawbacks such as licensing etc., associated with quantitative quotas. While tariff quotas therefore are useful as a protective measure to safeguard the interests of the domestic industry without unduly restricting international trade, there are practical difficulties in the way of adopting tariff quotas, in as-much-as they impose a greater burden on administrative authorities. A careful consideration to the practical aspects of the question from the administrative angle should be given before utilising tariff quotas as a protective measure.

Question 49.—*Would you like a minimum or a maximum duration to be laid down for protective measures?*

It would not be possible to say definitely when protection is superfluous. For purposes of guidance, however, a date line might be fixed taking into account the time necessary for the domestic industry to establish itself. But this date line should not be looked upon as the rigid line.

Question 50.—*Are you satisfied with the existing system of revenue tariff classification? If not, what are its defects and what changes would you suggest? Can the existing system be so modified as to reduce the burden on the consumer without any appreciable loss of revenue to the public exchequer?*

The detail of the revenue tariff classification should be reconsidered in the light of new economic conditions. With the progress of new industries using new raw materials, items which were not previously regarded as materials for industrial use are now utilised for manufacturing purposes. All these items have

to be separately shown for purposes of tariff classification. Industry is unduly burdened if the said items are treated under one single head as happens now in many instances.

It is understood that the Government of India have already taken up a revision of the existing descriptions of India's trade accounts. Along with this the question of revenue tariff classification should also be considered and revised thoroughly and expeditiously so that the revised classification can serve the industry and trade better than at present.

Question 51.—*Having regard to—*

(*a*) *the future structure of our foreign trade,*

(*b*) *the anticipations relating to the course of international trade (underlying the Havana Charter on Trade and Employment), and*

(*c*) *the broad lines of our Industrial Policy as laid down in the Statement of the 6th April* 1948,

would you attempt a formulation of the objectives of our long-term fiscal policy?

Fiscal policy as emphasised earlier should be made to fit to the overall economic policy. While our fiscal policy should be shaped primarily to meet our own needs, it should appreciate wider considerations, *i.e.*, India having regard to the national interests should also contribute to the free-flow and development of world trade in channels that would help the industrialisation of agricultural countries and the world economy as a whole.

The Committee have already expressed themselves against the Havana Charter as it purports to freeze the present pattern of international trade and consequently the existing inequalities among the nations. If their suggestion is accepted, India's fiscal policy will not have to be adjusted to meet the provisions of the Charter. In this connection the Commission's attention is invited to the reply to Question 97.

Question 52.—*In order to facilitate the objectives of our fiscal policy, do you think it would be necessary for Government or quasi-Government institutions to participate in foreign trade* (*a*) *in the short period and* (*b*) *in the long run?*

The Committee cannot conceive how the participation of Government or quasi-Government institutions in foreign trade would facilitate the objectives of our fiscal policy. On the other hand the Committee consider that Government's participation goes against the fundamental principle of encouraging a healthy competitive economy. Moreover, committed as the country is to a democratic form of Government, it is anomalous to think of detailed intervention by Government in the economic life of the community. The results of State Trading that has been carried on in India and elsewhere only strengthen the argument against Government participation in foreign trade either in the short period or in the long run. A copy of the Committee's detailed reply in this connection, to the State Trading Committee appointed by the Government of India is enclosed.

Question.* No. 53.—*If your answer to the above question is in the affirmative, what form of Government or quasi-Government organisation would you recommend? What would be the limits to their activities, and what conditions, if any, would you impose on their functions?

In view of what has been stated above, an answer to this question does not arise.

Section E

Non-fiscal measures for the promotion of trade and industry

Question 54.—The Indian fiscal Commission of 1921-22 suggested several "supplementary measures" as an aid to the tariff policy which they had recommended. Would you enumerate the non-fiscal measures that Government should now adopt in furtherance of any approved fiscal policy both (a) in the short period and (b) in the long period?

It has to be recognised that Indian industries cannot be developed in competition with the advanced industrial countries without the active sympathy and support of the Government. A protective tariff or the grant of bounties will have to be supplemented by other measures of assistance by Government. Governmental assistance can be in the form of guarantee of interest remission of taxes on raw materials, reduction of railway freight, supply of cheap power, preferential purchases by Government, leases or other concessions on favourable terms, provision or facilities for research, etc. The exact form of quantum of assistance to each industry must be determined in the context of the conditions obtaining.

Question No. 55.—In particular, have you any special suggestions to make as to how Government could facilitate—

(a) the supply of essential industrial raw materials, where these are not readily available in the country;

(b) the supply of essential plant and machinery;

(c) the supply of cheap fuel or power;

(d) the provision of cheap, adequate and quick transport both for the movement of raw and semi-processed materials and their finished products, made available under a scheme of rationalized freight-structure;

(e) the supply of technical personnel of different grades;

(f) the supply of technical information about industrial methods and processes;

(g) the supply of industrial finance, both for use as block and as working capital?

The Government could facilitate the supply of under-noted items in the manner mentioned against each of the items:—

(a) As regards essential industrial raw materials, where these are not readily available in the country, Government should adopt a policy of free imports. The position will be different, however, where India is granted a quota under international Commodity Agreement. The normal procedure should be to encourage free imports of these scarce raw materials. In some cases Government might also consider the desirability of promoting imports duty free. Wherever possible and desirable, the question of augmenting indigenous supplies of industrial raw materials should be explored.

(b) Should a situation arise when Indian Industry finds it difficult to obtain essential plant and machinery from abroad, Government should actively assist in the procurement of the requisite capital goods by setting up suitable organisations, if necessary, on a semi-governmental basis in countries from where capital goods could be secured. Businessmen of experience should be actively associated with these Organisations as also with the Government when they (Government) have to approach the Governments of other countries to secure capital goods.

(c) Government are in the best position to effect adequate and timely supply of cheap fuel or power to Indian industries. Government's policy to nationalise the business of generating and distributing electric power devolves upon them the responsibility to see that this business is conducted on sound business lines in the interests of the consumers. Moreover, the projects for the generation of cheap electric power for the utilisation of the unused water resources of the country are in the hands of the Government. The movement of coal which is an important item of fuel in the industries is handled by Government railways. It is upto the Government to facilitate the movement of coal from the collieries to the centres of consumption.

(d) Please see reply to Question 17(ii).

(e) Efforts no doubt have been made during and since the war to expand facilities for vocational training. Further efforts in this direction should be made so that the country might have a regular supply of technical personnel of different grades. The Offices of the Indian Trade Commissioners and Ambassadors in the foreign countries should help Indian firms in getting technical personnel whenever they are approached for such assistance. They should also arrange to the training facilities for Indian technicians in institutions in the foreign countries where possible. The Government might also consider the desirability of drawing upon the international technical assistance programme of the United Nations and its specialised agencies. Caution must, however, be exercised to ensure that the international technical assistance that may be forthcoming is suitable for use in India and furthermore that it helps indigenous talent.

(f) The Government should maintain up-to-date and well equipped technical libraries and evince greater readiness in the supply of technical information about industrial methods and processes. The organisations engaged in technical assistance projects should keep in close touch with one another and with the industry. Technical information and assistance programme, it must be remembered, will be judged largely by their practical success in assisting the industry in its day-to-day work. Before Government can undertake any programme of aid to industry by way of technical personnel and technical information, there is first the need to build up an organisation manned by qualified experts. The quality and sympathy of the experts are even more important than their number, for inappropriate or unimaginative or delayed technical advice may prove to be ruinously costly to the industry and the taxpayer generally. The Council of Scientific and Industrial Research should be activised so that it might make available technical information about industrial methods and processes to the various industries.

(g) With reference to the supply of industrial finance, Government have already taken some action in this regard. The Industrial Finance Corporation of India was established in 1948 with an authorised share capital of Rs. 10 crores divided into 20,000 fully paid up shares of Rs. 5000 each for the purpose of making medium and long-term credits more readily available to industrial concerns in India particularly in circumstances where normal banking accommodation is inappropriate or recourse to capital issue channels is impracticable. Section 23 of the Act prescribes the business which the Corporation might transact, *viz.*, (a) guaranteeing loans raised by industrial concerns which are repayable within a period not exceeding twenty-five years and are floated in the public market, (b) underwriting the issue of stock, shares, bonds or debentures by industrial concerns, and (c) granting loans or advances to or subscribing to debentures of industrial concerns, repayable within a period not exceeding twenty-five years.

The above section also provides that the Corporation can grant advances or guarantee advances only against the security of tangible assets. The Corporation cannot also enter into any arrangement with a single individual concern for an amount equivalent in the aggregate to more than 10 per cent. of the paid up share

capital of the Corporation, but in no case exceeding Rs. 50 lakhs. The effective rates of interests charged by the Corporation vary from 5 to 5½ per cent. and the interest charged by the Corporation is payable in every six months. The interest rate is duly high considering that Government wish to implement a cheap money policy. Moreover only a 3 per cent. allowance is given by the income tax authorities on working capital. In the circumstances the Corporation's lending rate should be correspondingly reduced.

By and large, it would seem that the facilities offered by the Corporation are sufficient to meet the needs of the industries concerned. It may be necessary at a later date to increase the limit upto which the Corporation can extend aid to any particular company. The rate of interest for such loans should be reasonably adjusted so as not to constitute a heavy burden on the industries.

State Governments should also set up Industrial Credit Corporations in their states with objects similiar to those of the Corporation established by the Centre. These State Corporations can with advantage restrict their operation to the smaller medium and cottage industries in order to avoid overlapping between the spheres of operation of the State institutions and the Central Corporation.

Question No. 56.—How and to what extent could the trade and industry co-operate with Government in the provision of such facilities?

The need for co-ordination of policy in India is greater than in countries with a centralised Government and the difficulties of securing it are also greater in view of the size of the country. Instead of co-ordination between different departments of a single administration, India needs co-ordination (1) between the departments of the Central Government, (2) between those of each State Government, (3) between the Centre and the States and (4) between the States themselves.

From the end of industry and trade, co-operation will be extended through the various organised industrial associations and chambers of commerce. These associations and chambers of commerce will, as now, apprise the department or the Government concerned from time to time about the particular needs of their constituents. These organisations will exchange information with the authorities on current developments in the various fields. The Federation of Indian Chambers of Commerce and Industry should be treated by the Government of India as the only co-ordinating industrial and commercial body and its advice should be increasingly sought and followed in regard to any governmental measure affecting industry and trade. This scheme of close co-operation between the industry and trade and the Government will result in the offering of not only expert opinion, but of representative opinion—opinion which is representative of every main sphere of the organised economic life of the country.

Question No. 57.—Do you think any special types of organization would be necessary (a) to secure this co-operation between industry and trade and (b) to provide for the orderly supply of the facilities enumerated in Q. 55 or for the supply of such other facilities as may be considered necessary?

In view of what has been stated above, it is not necessary to set up any special type of organisation. The Central Advisory Council of Industries had recently recommended setting up of small and compact Committees by the industry concerned so that these Committees might maintain continuous liaison with Government with a view to obtaining Government assistance without delay whenever necessary. The Committee of the Federation also feel that such liaison and review of industrial position from time to time by the Central Advisory Council of Industries would help the various industries in their day-to-day working.

SECTION F

Fiscal Policy in relation to Commonwealth Preferences

Question No. 58.—What are your general views on the subject of Imperial Preference—particularly in the light of the principles underlying the General Agreement on Tariffs and Trade and the Havana Charter on World Trade and Employment?

In the past public opinion was not in favour of India concluding preferential agreements within the Empire. The above view was held in official circles also upto the signing of the Ottawa Pact in 1932. In fact, in 1903, Lord Curzon's Government expressed themselves against Imperial Preference for the following reasons:—

"(a) That without any system of tariff preferences India already enjoyed a large measure of the advantages of free exchange of imports and exports;

(b) That India had not very much to offer to the Empire;

(c) That Government would not be justified in embarking on a new policy which might involve reprisals by foreign nations, unless assured of benefits greater and more certain than any which have so far presented themselves."

There was, however, a modification in the attitude of the Government of India since 1923 towards Imperial Preference. It began by conceding that although discriminating protection had displaced free trade as the basic rationale for Indian tariff determination, Imperial Preferences were not inconsistent with the policy of discriminating protection. It may be said that the Ottawa Conference placed a new interpretation on the policy of discriminating protection and went on to record as favouring differential treatment for British as opposed to non-British imports.

In view of the above, public opinion was not sanguine about the beneficial effects of the scheme of Imperial Preference. It was generally felt that Imperial Preference was forced upon India with little reference to the particular needs of Indian economic development, that it was based on political consideration and was designed to strengthen the British Empire rather than to provide for a sound development of Indian economic institutions.

There was considerable opinion outside India which also did not view the Ottawa Pact with enthusiasm. It was felt that it would restrict world trade. Although the issue is confused by the fact that from 1932 onwards world economic activity was on the increase, and with it world trade, the PEP Report on Britain and World Trade (1947) admits that the system of Imperial Preference established at the Ottawa Conference in 1932 represented a modification of multilateralism in that it artificially diverted trade into British Empire channels by means of discriminating tariffs.

U. S. A. has particularly been against Imperial Preference. In November 1938 U. S. A. signed a trade agreement with the British Government which re-affirmed the Most-Favoured-Nation principle and curtailed Imperial Preferences on certain specified commodities. The Atlantic Charter pressed the same principle of rigid adherence to the Most-Favoured-Nation theory. Then, in 1942, the Mutual Aid Agreement pledged the United States and the U.K. to agreed action "for the elimination of all forms of discriminating protection in international commerce and the reduction of tariffs and other trade barriers." The principle of elimination of tariff preferences was embodied in the American proposals for the expansion of trade and employment and has also found place, after modification, in the Havana Charter. As per article 16 of the Charter,

preferences in force including Imperial Preference may continue, but no margin of preference shall be increased. The Charter also recognises that special circumstances, including the need for economic development or reconstruction, may justify new preferential agreements between two or more countries in the interest of the programmes of economic development or reconstruction of one or more of them.

The reaction of the British Government to the attitude taken by the U. S. A. in respect of Imperial Preference is that Britain is not committed in any way to the abolition of Preference. At the time of the Mutual Aid Agreement (1942) Mr. Churchill secured in private correspondence an assurance from President Roosevelt "that we were no more committed to the abolition of Imperial Preference than the American Government were committed to the abolition of their high protective tariffs." Mr. Herbert Morrison said in June 1946, "There could be no question of Imperial Preferences being given up as it were in the void. They would be examined as part of the wider commercial picture and in the bargaining which would take place any reductions suggested would have to be weighed against the advantages to the Commonwealth and Empire as well as to the world of the countervailing reductions in trade barriers which were offered by other countries." Mr. Attlee said, "We for our part are ready to agree that the existing system of preferences within the British Commonwealth and Empire will be contracted, provided there is adequate compensation in the form of improvement in trading conditions between Commonwealth and Empire countries and the rest of the world."

India's attitude now towards Imperial Preference has to be determined in the context of the new factors which have arisen. It is not the provisions of the Havana Charter that necessitate a reorientation in our policy but the conditions of our foreign trade and world trade. Our exports of manufactured goods are increasing. On the import trade the proportionate share of raw materials to total imports is also increasing. The whole concept of Imperial Preference has also got to be viewed in a new perspective. The balance of payment problem demands greater cohesion of a convenient area like the Empire or the sterling area and the growth of multilateralism within the Empire in the first instance might help restoring balance to the world trade. Another important factor is the consideration as to how quickly and easily we might utilise our sterling balances in the purchase of capital goods abroad. Preferences given in respect of any commodity should, however, be judged separately on individual merits of the case and the same should be negotiated on a reciprocal and mutually advantageous basis.

Question No. 59.—The Indian Fiscal Commission of 1921-22 recommended that, if the policy of Imperial Preference was adopted on the lines indicated in their Report, its application should be governed by the following principles:—

(a) that no preference should be granted on any article without the approval of the Legislature;

(b) that no preference given in any way should diminish the protection required by Indian industries;

(c) that preference should not involve on balance any appreciable economic loss to India.

On the assumption that the scheme of Imperial Preference is continued, would you consider the above principles adequate? If not, would you formulate a comprehensive set of principles that may be applicable to the circumstances of the present?

The Committee feel that the whole question of Imperial Preference should

be considered in the context of the new political relations between India and the U. K. and the Commonwealth. Apart from political affiliations, it is also necessary to consider as to how far the continuance of the scheme of Imperial preference would assist the development programmes of India. In any case the question of preferences should be considered in respect of each commodity on the merits of the case and the principles indicated by the Fiscal Commission of 1921-22 in this connection should be broadly followed.

Question No. 60.—Would you make a broad analysis of the effects of the preferences granted and received by India and U. K. respectively under the Indo-British Trade Agreement of 1939, as modified by the provisions of the General Agreement on Tariffs and Trade under the following heads:

(a) Expansion of trade;

(b) Customs revenues;

(c) Price levels of preferred commodities?

Question No. 61.—Please attempt a similar analysis in respect of the trade between India on the one hand and the other Commonwealth countries and the British colonies on the other.

Question No. 62.—In what direction and to what extent do you think the preferences on imports into India have affected the burden on the Indian consumer? Could you attempt a quantitative assessment with reference to some major preferred imports?

Question 63.—Is it possible to make a similar estimate of the extent to which our exports have expanded as a result of the preferences received by us in the U. K., the Dominions and the other British territories?

The Indo-British Trade Agreement of 1939 was signed in the month of March. The second World War which started in September of that year and continued for 6 years, completely disrupted international trade. The post-war period to date has presented further complications on account of the balance of payments difficulty experienced by almost every country. The direction of India's foreign trade has been influenced more by the exigencies of the exchange situation than normal forces connected with international trade. In the circumstances, it would not be possible to assess with reasonable degree of accuracy, the results of the Indo-British Trade Agreement. Similarly, the results of the modifications of the Indo-British Trade Agreement, as made under the provisions of the General Agreement on Tariffs and Trade, would not also lend themselves to a statistical study.

Question 64.—Apart from the economic advantages that may be derived from these mutual preferences, do you think that they confer any bargaining strength on India vis-a-vis (a) the United Kingdom and other Commonwealth countries and (b) non Commonwealth countries? If so, please illustrate your answer with some examples.

Apart from the mutual advantages and the obligations implicit in the system of preferences, it is unlikely that India will have any special advantages or bargaining strength *vis-a-vis* the United Kingdom and Commonwealth countries. Even the extent of the advantage accruing to India will depend upon the relative importance of the commodities or articles on which preferences are exchanged. The preferential agreement, in fact, might handicap India in so far as her relations with non-Commonwealth countries are concerned. It may be mentioned here that after the preferential agreements with the U. K. and Dominions our export to non-Empire countries registered a decline.

Question 65.—(i) In the light of your replies to the above questions, would you formulate your views on the desirability of continuing the existing system

of preferences between (a) India and the United Kingdom, (b) India and the other Dominions, and (c) India and the other British territories?

(ii) If you are not in favour of continuing the existing system, what modifications would you suggest?

As stated above, the desirability of continuing the existing system of preferences will have to be judged in the context of the new political and world economic set up. In particular, it has to be borne in mind that the preferential agreement does not adversely affect our bargaining strength with non-Commonwealth countries. The preferential arrangement should also be subject to continuous review and modifications in the light of changing circumstances.

SECTION G

Treatment and obligations of protected and assisted industries.

Question 66.—(a) Do you consider that industries receiving protection or assistance from Government owe a special obligation to the rest of the community as regards the manner in which they render their services?

(b) If so, please state your views as to these obligations under the following heads:

(i) price policy and price structure;

(ii) wages and conditions of labour;

(iii) adoption of technological improvements;

(iv) initiation of research in the technique of production and distribution;

(v) training of apprentices and Government scholars and stipendiaries;

(vi) control over the distribution of the products of protected industries in certain contingencies.

(a) It is said that inasmuch as the grant of protection to any industry implies placing of some burden for some time on the country as a whole, protected industries may bear certain special responsibilities. The Committee, however, consider that it will be wrong in principle to lay down a uniform course of behaviour for all protected industries irrespective of their size or capacity. The obligations that the protected industries are expected to bear should, however, be according to the nature and capacity of the industry. If it is decided to give protection to some cottage industry, this industry cannot be asked to bear the responsibilities by way of application of research in the technique of production, expansion in the size of operations, etc., as it might be required of large-scale industries. It will, however, be fatal to fetter the freedom of management of large scale protected industries on general principle that protected industries owe a special obligation to the rest of the community.

(b) (i) Generally the State should not interfere in respect of the price policy, exceptions, however, being (1) proved cases of abnormal profiteering, and (2) where the protection given is through quantitative restrictions.

(ii) The protected industries, as any other industry, should conform to the general legislation in regard to the wages and conditions of labour. The fact that protection has been granted to an industry is proof that the cost of production of this industry is high in relation to foreign competitive goods. In the circumstances, the protected industry should not be burdened with higher costs by way of special legislation in respect of wages and conditions of labour.

(iii) and (iv) Adoption of technological improvements and the type and extent of research which an individual firm can undertake will depend on its resources.

A uniform scheme cannot be forced on all the recipients of protection. These matters may be reviewed by the Tariff Board in its periodic inquiries.

(v) Protected industries may be required to undertake the training of apprentices, government scholars and stipendiaries to the extent to which they are capable.

(vi) The action, if any, to be taken in regard to the control over the distribution of products of protected industries will depend upon the nature of the contingencies that may arise.

Question 67.—(a) Is it necessary to stipulate that no protected or assisted industry should engage in any restrictive practice in respect of (i) production, (ii) distribution, or (iii) prices?

(b) What general principles would you suggest to regulate the right of association or combination of the different units in a protected or assisted industry?

(a) While theoretically it would be considered desirable to proscribe restrictive practice in respect of (1) production. (2) distribution and (3) prices, in actual practice an interpretation of restrictive practice will not be found easy. It may lead to undue interference in the internal working of an establishment and such interference will be unnecessary and undesirable. Beyond general stipulations for the maintenance of competition. Government ought not to restrict the freedom of action of protected industries as of other industries.

(b) An association or combination of the different units in any industry takes place on economic grounds. For instance, associations like the Associated Cement Companies are not intended to function as monopolies, but have the primary object of regulating sales and distribution in a cheap and economic manner. Only when such associations or combinations tend to develop monopolistic tendencies and this could be proved, then there may be a case for intervention of the State. Even then the objective need not be to break such associations or combinations, but to regulate them.

Question 68.—Would you lay down any conditions regarding the financial structure of the industries receiving protection?

It is not necessary to lay down specific conditions regarding financial structure of the industries receiving protection. It may be expected that the Tariff Board while scrutinising the application for protection would also consider the capacity of the applicant from the financial point of view.

Question 69.—(a) Are you satisfied with the present arrangements for the standardization and control of the quality of industrial products? In particular, do you think that any special arrangements for the control of quality of the products of protected and assisted industries are necessary?

(b) If so, would you impose this duty on the protected or assisted industries through such special organizations as they may set up with the approval of Government or would you set up any special institutions outside these industries?

(c) What in your view should be the structure and functions of such organizations or institutions? Should they be professionally expert bodies or be composed of representatives of the different interests concerned?

There is need in general to attain high standard of quality in production and to maintain that standard uniformly over the entire production of that article. It is understood that the activities of the Indian Standards Institution are directed towards promoting standardisation, quality, etc. in industry and commerce.

While it is desirable to lay down standards of quality, conformity with such standards should be secured normally by voluntary adoption by producers and consumers. Special arrangements for the control of quality of the products of protected industries need not be made. Where the industry has a voluntary collective organisation or association, then such body may be asked to safeguard the interests of the consumer by keeping a watch upon the members in regard to maintaining and improving the quality of their products.

Question 70.—Do you think that the obligations should be embodied in the relevant statutes dealing with protected or assisted industries or be left to be prescribed by the tariff-making machinery on an ad hoc *basis, in each individual case of an industry seeking protection or assistance?*

Such of the obligations as may be decided upon should be left to be prescribed by the tariff making machinery on an *ad hoc* basis in each individual case of an industry seeking protection or assistance.

Question 71.—(a) Do you consider that any special administrative machinery is necessary to ensure that these obligations of protected and assisted industries are duly discharged? If so, what form of administrative machinery would you suggest?

(b) Or would you prefer that this function should be entrusted to a special wing of the tariff-making machinery or of any other existing organization?

(c) Or, do you think that it will be necessary or desirable for Government to be represented on the management of protected or assisted industries in order to ensure that these obligations are carried out in the spirit in which they are conceived?

(a) Separate special machinery to ensure that the obligations "of protected and assisted industries are duly discharged" is neither necessary nor desirable.

(b) A review of the progress of a protected industry should be left to the Tariff Board so that the Tariff Board may make periodical recommendations in respect of the industry to the Government.

(c) It is wrong in principle to have Government representatives on the Board of management of a Private Company. In the case of mixed undertakings, *i.e.*, where the State contributes part of the capital, a representative of the Tariff Board might be associated with the management of these undertakings.

SECTION H.

Organisation, methods and procedure

Question No. 72.—In the light of your replies do you consider that the existing administrative organizations will be adequate to deal with the problems of implementation that may arise out of Government's acceptance of a comprehensive policy as regards (i) fiscal measures and (ii) non-fiscal measures?

Question No. 73.—If not,, what organisational changes would you propose in the existing machinery of Government dealing with these subjects?

Question No. 74.—(a) It has been suggested that it might be necessary to set up one comprehensive organisation (partaking of the nature of a Trade and Industrial Planning Commission) sub-divided into suitable branches to deal with the planning and execution of various measures, relating to (i) tariffs, (ii) other fiscal measures, and (iii) non-fiscal measures, etc. Do you agree with this view?

(b) If so, would you indicate the type of organisational chart that you have in mind?

Question No. 75.—(a) Alternatively, would you prefer a series of specialised organisations dealing with these particular subjects?

(b) If so, how would you correlate the functions of these administrative organisations?

Question No. 76.—As a further alternative would you favour only one Technical Organisation dealing with Tariffs, leaving the other subjects to be dealt with by the different Ministries concerned more or less in the manner followed at present?

Question No. 77.—Whatever may be the structure of the planning and co-ordinating machinery that you may favour, do you agree that a specialised organisation for tariff purposes is essential to the implementation of a scientific tariff policy?

The existing administrative organisation will be inadequate to deal with the obligations arising from Government's acceptance of a comprehensive policy as regards fiscal and non-fiscal assistance to the industries.

What is required is development of a new kind of public administration to deal with the State's new and expanding functions in the industrial field. This will mean toning up the present administration and adopting an essentially different technique of administrative team work. If the public service is to secure the best men, it will be desirable to encourage freedom of movement between Government departments and privately administered concerns. In the matter of new recruitment, the greatest attention will have to be paid to working out the best methods of attracting the right types and of assuring that technical as well as administrative ability shall be given the fullest recognition and scope for efficient service.

Apart from the re-organisation of the entire Government machinery on the above lines, the Committee do not favour any expansion of the governmental machinery at this stage. The Committee also do not agree with the suggestion that it might be necessary to set up one comprehensive organisation (partaking of the nature of a trade and Industrial Planning Commission) sub-divided into suitable branches dealing with the planning and execution of various measures. It may, however, be desirable to set up a compact high-powered Commission including the representatives of the industry to determine the general principles and programmes of development. The functions of this Commission should however be limited to an overall survey of the field of economic development and to the location of industries and the formulation of priorities.

As far as the specific obligations referred to above of the Government are concerned, they should be implemented by the various Ministries. Besides, the Tariff Board should be made a statutory and permanent organisation. The Board should be assisted by a technical organisation, which will be able to carry out specialised investigations. This technical organisation, instead of the different Ministries concerned, should assist the Tariff Board in its work. A specialised organisation of this type is essential to the implementation of a scientific tariff policy.

Question No. 78.—If so, would you agree with the recommendations of the Indian Fiscal Commission of 1921-22 that the Tariff Board or the Tariff Commission should be—

(i) a permanent body of high standing,

(ii) *consisting of members who are of high ability, integrity and impartiality—preferably with a knowledge of economics and a practical acquaintance with business affairs?*

(*Paras.* 302, 309—*Chapter XVII*).

Have you got any other views on the status and structure of an appropriate Tariff Board or Commission?

As indicated above, the Tariff Board should be made a permanent body. The Indian Fiscal Commission of 1921-22 also suggested the establishment of a permanent Tariff Board. The implementation of this recommendation is long overdue. The Committee also agree with the recommendations of the Fiscal Commission that the Board must be one which would command the confidence of the country and must be above suspicion of any subservience to particular interests. It is essential that the members of the Tariff Board should be thoroughly acquainted with the industrial and commercial background as only then would the Board work in a competent manner.

Question 79.—*What, in your view, are the appropriate functions of a Tariff Board? Do you agree with the recommendations of the Indian Fiscal Commission of* 1921-22 *on this subject?* (*Para.* 306 *Chapter XVII.*)

Although the Committee are generally in agreement with the recommendations of the Fiscal Commission of 1921-22, in regard to appropriate functions of the Tariff Board, they consider that there should be an extension of the scope of the organisation particularly in regard to recommending the nature of assistance that should be extended to indigenous industries. The Board should have the right to initiate an enquiry not only in respect of tariff protection, but about all allied problems of industrial development with a view to seeing what assistance should be forthcoming from Government. The Committee do not think it desirable to frame rigid terms of reference to the Tariff Board. The function of the Board should be to guard and promote the interests of the indigenous industry consistent with public welfare.

Question 80.—*Do you consider that the existing functions of the present Indian Tariff Board as laid down in the Government of India Resolutions of November* 3. 1945, *November* 26. 1947 *and August* 6, 1948 (*summarised in the note to Section B*) *are adequate? If not, what changes would you suggest?*

The existing functions of the present Indian Tariff Board as laid down in the Government of India Resolutions referred to, are wider than those of the *ad hoc* bodies constituted previously. These functions, however, are not comprehensive enough. Incidentally it may be noted that the present Tariff Board is neither permanent nor a statutory body.

Question No. 81.—(*a*) *Do you consider that the present structure and organisation of the Tariff Board are adequate for the discharge of the duties entrusted to it?*

(*b*) *If not, what structural or organisational changes would you propose?*

The present structure and organisation of the Tariff Board are not adequate for the discharge of the duties entrusted to it. It would be necessary as suggested before to set up a specialised organisation as an adjunct to the Tariff Board. so that the Tariff Board may proceed with its work furnished with full particulars. The Board itself should function in three or four sections each making a continuous study of the developments in the various industrial fields. This would facilitate not only a continuous, but also an expert touch with problems. Moreover, it would be possible to deal expeditiously with issues coming up for review or decision.

Question No. 82.—Do you think that the present procedure under which an industry's fitness for protection is considered only on application by that industry is sound? If not, how would you like it to be modified?

Question No. 83.— In any case, should the present procedure be modified so far as small and unorganised industries are concerned? If so, in what direction?

The present procedure under which an industry's fitness for protection is considered only on application, does not enable the safeguarding of the interests of the unorganised industries. Those connected with unorganised industries do not either have the knowledge nor the means to go through an elaborate procedure of application to the Tariff Board. In the circumstances, the Tariff Board may be vested with the necessary authority to generally enquire into the cases of assistance that may be required to the industries, although a formal application may not be received.

Question No. 84.—Where the procedure provides for an application for protection, should the application be addressed to Government or to the Tariff Board?

Question No. 85.—What modifications would you suggest in the present procedure to make it more expeditious.

The present practice is that applications for protection are first considered by the Commerce Ministry which forwards the same to the Tariff Board only if it is satisfied that a *prima facie* case for protection is made out by the applicant industry. This procedure vests Government with discretionary powers and moreover it entails delay in determining the claim for protection of an industry. A more correct procedure would be that claims of all applicants for protection or assistance should be looked into first by the Board itself. The Tariff Board should therefore be fully authorised to initiate enquiries or receive applications for protection. The Board may, however, be asked to apprise the Government before commencing an enquiry.

Question No. 86.—Have you any improvements to suggest in the Tariff Board's present working methods (including the procedure for public hearings)?

The above suggestions, if implemented, will improve the present working methods of the Tariff Board. With a view to safeguarding the interests of the applicant industries, the Committee would recommend that where the applicant industries are not satisfied with the views of recommendations of the Tariff Board on questions of fact, they should be given a chance to appeal to the Government.

Question No. 87.—Do you consider that the Tariff Board's recommendations should normally be accepted by Government and implemented by it?

Inasmuch as the Tariff Board is deemed to be an expert body, Government should not normally sit in judgment on the recommendations of the Board on technical matters except when appealed to by the applicant industry itself. Where it is not administratively feasible to implement the recommendations of the Tariff Board, then Government should make this known to the public and give the reasons for the same.

Question No. 88.—(a) Having regard to the nature of the duties and functions entrusted to the Tariff Board, do you consider that it should be placed on a statutory basis?

(b) If so, should the statute lay down only the composition and functions of the Tariff Board or also include the general principles governing tariff policy, the general procedure to be followed in tariff enquiries and the manner of enforcement of the obligations of protected or assisted industries?

(c) *To what extent would such statutory provisions militate against flexibility? How could the possible risk of rigidity in procedure and administration implicit in statutory provisions, be either eliminated or reduced?*

While the Tariff Board must be placed on a statutory basis, only the composition and general functions need be laid down. The Board must, however, be directed to work in the light of the general industrial policy of the Government. This will obviate the possible risk of rigidity in procedure and administration implicit in statutory provisions.

Sd. G. L. BANSAL,

Secretary.

APPENDIX

Copy of a communication No. F. 5514/693, dated 28th November, 1949, addressed by the Federation of Indian Chambers of Commerce and Industry, New Delhi, to the Secretary, State Trading Committee, Government of India in the Ministry of Commerce on State Trading:

I am directed to invite reference to your letter No. I-ST. Tradg, 49 dated the 19th October, 1949, inviting the Federation's views on the matters covered by the questionnaire issued by the Committee on State Trading. In this connection, I am to say that the Committee of the Federation have given their very careful consideration to the matters under reference and have desired me to address you as follows:—

According to the Press Note dated the 8th October, 1949 of the Government of India in the Ministry of Commerce announcing the personnel of the State Trading Committee, the Committee has been set up to advise as to whether, in the context of present-day conditions and taking into account possible future trends of India's international trade, it would be of advantage to constitute a State-owned or State-sponsored organisation for handling any sector of the country's foreign trade and, if so, what the structure of such an organisation should be and its field and scope of activity.

Scope of the questionnaire

The scope of the Questionnaire issued by the State Trading Committee, however, is very comprehensive and seems to exceed the terms of reference. The Questionnaire is divided into two parts: Part I seeks views on principles apart from questions of organisation, and Part II seeks views on organisational matters apart from the question of principle. In the preamble notes to Part I and II, two wide assumptions are asked to be made, namely, (1) that it is possible to devise a proper form of organisation for State Trading such as would meet all the objections in regard to the inability of the State so to organise its trading operations as to conduct them on really commercial lines; and (2) that State Trading is desirable. The Committee venture to remark that the Questionnaire seemingly prejudges the issue and proceeds on assumptions, the secrutiny of which is and ought to be the first task of the Committee on State Trading. The Committee of the Federation, however, trust that the State Trading Committee will, in the first instance, thoroughly investigate the fundamental question as to whether it is desirable at all to set up and operate a State-owned or State-sponsored organisation. In view of the belief which the Committee of the Federation find in certain quarters that the best way of improving our foreign trade and economic affairs generally is to place more and more powers in the hands of the State, they desire to discuss here fully the various issues involved.

Back ground of proposals for State Trading

In India, the idea of the State or a Central Agency handling foreign trade is of recent origin, about a decade old. It was first mooted during the war and subsequently brought to the fore now and again in spite of a complete change in the original background against which it was projected. The operations of the U.K.C.C., it will be recalled, gave rise to the suggestion that the Government of India should set up a similar Indian agency to safeguard the interests of India's export trade. It was felt that an organisation of this type would help the maintenance of trade contacts abroad and also effectively deal with foreign Purchasing Missions which were operating in India at that time; the bulk purchases of these Missions and the war-time controls and import licensing arrangements of foreign countries tended to keep down Indian prices and canalise India's trade in directions not always to the advantage of India.

With the end of the war in 1945 and further with the winding up of the U.K.C.C. in 1946, the idea of having a Corporation or an Agency to handle our export trade had receded. The subject was again brought up some time towards the end of 1947 and the early part of 1948 without the Government coming to any definite conclusions. After a year *i.e.* in March, 1949, the Honourable Shri K. C. Neogy, Commerce Minister, revealed in the Indian Parliament that it was his intention to set up a Committee to exmine the question of State Trading on the basis of a State Corporation in some detail. The considerations weighing with the Commerce Minister seemed to be: (1) the fact that Government had already undertaken State Trading in some instances such as barter deal with Russia on import of foodgrains steel, chemicals and fertilisers effected by the Ministries concerned: and (2) the feeling that State Trading would perhaps facilitate the fulfilment of reciprocal obligations resulting from such bilateral trade agreements as are being and might be entered into by India with other countries. Although a Committee was constituted for the purpose, further action was not apparently taken by Government in regard to directing the Committee to examine the question of State Trading. Again on the 5th October, 1949 the Commerce Minister announced in the Parliament that a Committee would be set up to consider the question of State Trading and various issues connected therewith. It would appear that this time the factor which re-opened the question of State Trading was the situation arising out of the devaluation of the rupee in terms of the dollar effected in September, 1949 that is, it was felt that State Trading may help control over internal and external prices of export commodities, including the charging of differential prices and appropriation of surplus profits to the exchequer. In the Questionnaire of the State Trading Committee the alleged incidental benefits indicated to accrue, besides adaptation to post devaluation situation, are: Export Promotion; Elimination of a possible field for tax evasion; Possibility of securing better banking and exchange facilities abroad, etc.

Principle of State Trading

From the above it will be seen that although the pattern of our problems has been shifting emphasis is continued to be laid from time to time on the idea that it may be to the country's advantage were the foreign trade conducted directly by the State or through a Central Agency. Before discussing the specific points raised by the State Trading Committee in the Questionnaire, the Committee of the Federation wish to briefly consider the principle of state trading as also the results of such experiments in this regard that have been conducted in the various parts of the world, including India.

There is a distinction between direct purchasing in bulk by the State of its own requirements and State Trading as such. Again bulk buying and centralised purchasing are two different things. Bulk buying may be described as purchase by one buyer of the whole or at least a major part of a producer's output. On the other hand, Centralised Purchasing may be considered as a system rather than a method and one where a single party be it the State or a single agency is solely responsible for the purchase of a particular commodity or commodities. One result of the aforesaid practices is the creation of monopoly in foreign trade. By and large, the above distinctions and result hold good in respect of sales side also.

Experiments in various countries

As far as State Trading is concerned, the U.S.S.R. naturally represents the extreme example of a full State Trading System, *i.e.*, a system in which the Government controls exclusively the exporation and importation of all goods. In fact, during the inter-war period and before the Depression, the Soviet Union represented perhaps the only instance where Government entered

foreign trade in such a thorough-going way. Moreover, it is pertinent to note that detailed intervention by Government in the economic life of the community is the most where a non-democratic form of Government exists, for economic regimentation is part of political regimentation, to wit the centrally planned economies of Nazi Germany and Fascist Italy in the pre-war period and of Russia and Argentina to-day.

The biggest experiment of State Trading Organisation, not perhaps in size but in magnitude, relating to the economic unit upon which it has been imposed is Argentina institution for the promotion of trade of Argentina—shortly called **AIPA. Under the charter dating from 1946**, it has been the sole buying agency for all Government requirements abroad. Further, it has been the sole importer of articles like cement, coal, jute and jute manufactures, etc. It buys all food and fodder grains from the Argentina farmers at fixed prices and is the only seller for exports. There is parctically no activity in Argentina which is not somehow linked up with or dependent on AIPA. It is, however, reported that in a period of three years the activities of this Organisation have only resulted in placing burdens on the Argentine economy. While the AIPA has repressed the internal prices of linseed, wheat and other crops to such an extent that acreage under these crops has decreased, the retail prices of sugar, vegetable oil, etc. to the consumers have gone up. In regard to purchases abroad also the AIPA has not done well. Valuable currency was expended to purchase trucks, jeeps and tractors which were of no use either to the Army or to the public. Enormous stocks of essential materials have been bought and they are lying in sheds all over the country without their real cost being known. The position now is that even if Government wanted to withdraw from State Trading, the very necessity of covering the multitude of acts of omission and commission makes it impossible to adopt such a course.

In a democratic country like the U.K. the Socialist Government there, which believes in a welfare state and overall planning is yet to answer the challenge that national economic planning is not consistent with the idea of free world trade favoured by the British planners themselves. The Socialist Government, when they came to power in 1945, held on to the war-time system of purchase through the U.K.C.C. but it is interesting to observe that the U.K.C.C., which was set up during the war, was, as it were, dismantled by the Socialist Government after they came into power. The Corporation owed its origin to the exigencies of the war and it was established for the purpase of undertaking certain trading operations rendered difficult to normal trade channels by the conditions of war. Even in these operations the general idea at any rate was not to supplant private enterprise and established trade but to make use of them to the fullest extent possible. Apart from the fact that the U. K. C. C. was a war-time creation, the result of the interposition of the U. K. C. C. between the U. K. importers and the exporters abroad, however, meant severance of connection between the consumer and the exporter with its incidental disadvantages to the consumer from the bargaining point of view. Other organisations like the BETRO have, therefore, come into being to encourage exports and co-ordinate imports. In this connection it may be stated that the policy of bulk buying by the Government has been the subject of severe criticism in the British Parliament on, among others, the following grounds. Bulk buying is unsound in theory because it substitutes for the free market a single opinion covering very large quantities of commodities. One of the reasons why experts and very competent civil servants, when exercising their powers under the bulk system of purchase invariably go wrong is because they have to make up their minds on insufficient data and lack of experience in the line. In the economic field, as in anything in a dynamic situation, one cannot but be faced with changing factors. Perhaps in a rising market bulk buying will not lead to losses, but in a falling market the bulk

buyer will always be found to have bought above the market. The fixing of prices over the period by long-term contracts may be an advantage when prices are rising, but definitely a disadvantage when prices are falling. Some of the instances quoted in the British Parliament to prove the burden placed on the British consumer on account of Centralised Purchase Policy are: The British manufacturer has to pay £ 23 a ton more for his copper supplies from the U. S. A.; the handicap for the British user of zinc supplies is in the order of £ 16 to £18 a ton; the British user of lead has also to pay about £ 16, to £ 18 more than the competitive price for lead. His Majesty's Government had covered one year's agreement with Russia and Argentina for supplies of maize £29 a ton f.o.b. for Russian maize and £ 27 a ton for Argetine maize. During the course of the year, however, the price had fallen down to £ 17 a ton. Again, while the purchases through the Ministry of Food might have enabled Britain to secure her food from abroad at reasonable prices, it is almost certain that the prices which Britain has to pay henceforth would be higher thand world prices. Even in the past years the evaluation of the actual food cost has been concealed by food subsidies and it has been observed that in spite of the high cost of subsidies, British retail foodprices have not been much lower than those in some other countries. The U. K. Raw Cotton Commission, it is also felt, has been obliged to follow international prices fixed in 'Alexandria or in New York instead of following international prices fixed in Liverpool; the prices at which the British manufacturers are being supplied cotton are said to be artificially high in a falling market. The Raw Cotton Commission is not viewed with favour as it has not been able to handle satisfactorily the interests of the British manufacturing and trading interests.

It may also be noted that the operations of the Agricultural Projects Board set up by the Burmese Government with the ostensible reason of rehabilitating the rice industry and trade, have not been a success and there is a move to wind up the Board.

Indian Experience

The Committee would now like to refer to the full or quasi State Trading operations undertaken by our own Government particularly in foodgrains, steel, fertilizer etc. It would be worthwhile to investigate if prices paid to various foreign countries for the purchase of foodgrains on Government account have been competitive and economical. Such an enquiry is bound to confirm the general impression that the overhead charges in making purchases are great and cannot but increase the price of foodgrains imported on Government account. The wastage set off by the Government from supplies procured has been at a high level and this can never happen if left in the hands of private enterprise, faced as it is with the severe laws of competition and the realities of a profit and loss account. It is widely recognised that if private trading agencies were entrusted with the work of procuring food supplies and necessary Governmental assistance was extended, the country would have obtained better terms as regards price and quality. The modus operandi for importing food from abroad is quite apart from obligations of internal distribution assumed under a system of rationing and the Committee firmly believe that the import of foodgrains would have been more economical if private traders were allowed to import.

To meet the difference between the internal demand for steel and the available internal supply, perhaps led the Government to embark on large imports on their own account. The Committee have been given to understand that the Government contracted to purchase bars from Belgium at about Rs. 660 or about 200 dollars per ton, whereas the same could be got from America at about 70 dollars per ton; even according to the Government of India the price

of imports from Belgium has been reduced from Rs. 423 per ton to Rs. 368 per ton, but it is not known whether these are c.i.f. or f.o.b. prices. The rates at which the Indian business houses could procure supplies from America were also far below at which the Indian Supply Mission was able to get supplies in Washington. Government agencies purchasing heavy electrical machinery are said to have paid 10 to 15 per cent. more on account of sheer lack of business experience. The Committee may point out that when Government go in for purchasing a particular item, the sellers are tempted to enter into a combine and thus artificially force up prices. Government's purchasing Missions abroad have indirectly helped the formation of such combines by asking particular firms to supply all the components of complicated machinery even on paying a premium of 10 to 15 per cent. The Committee are therefore not very appreciative of the fast expanding organisation of India Supply Mission in Washington or the India Stores Department in London which function as the Government's procurement agencies in America and the U.K.

The import of fertilisers on Government account has also not been very economical. It has been brought to the Committee's notice that after the abandonment of the allocations made by the International Emergency Food Council in April 1949, the Government contracted to purchase Sulphate of Ammonia at a rate of £23-2-6 per ton through the agency of India Stores Department, London. It is understood that it would have been more economical if direct deals with suppliers in Eastern Germany or through the U.S.S.R. Trade agent had been made. The Government of India's purchase of 60 million yards of cloth from Japan cannot by any means considered to be a business success Not only the price paid is too high. Government have not also been able to dispose off the cloth thus obviously resulting in the dissipation of the dollar resources of the country and in a loss to the Exchequer. It is reported that the Government are carrying 20 million yards of cloth in spite of selling some supplies abroad. The points to be noted in this deal are: (i) the original idea was to releieve shortage in India but the prices contracted for were so high that the supplies could not be disposed of in India; (ii) cloth was sold abroad This sale was effected in the sterling area whereas the purchase was made in U.S.A. dollars. Government handling of the export of texitile to Pakistan has also not been satisfactory. Under the Indo-Pakistan Trade Agreement of June, 1948 Pakistan bought only twenty thousand bales of cotton textile against three lakh bales which were stipulated to be exported. Had it been left to the normal trade channels the quota that was to be lifted by the Pakistan Government but not so done could have been sold in the markets there and this would have helped easing India's balance of payments position with Pakistan.

The Committee would also like to point out that these important specific instances of trading by our Government demonstrate the futility of the system. Moreover in view of the fact that the country has put before itself the target of achieving food self-sufficiency before 1951, it would certainly be undesirable to start setting up a costly machinery for the import of foodgrains. By the time the machinery is fully established it may become superfluous as the target of self-sufficiency in food is achieved. Similarly in regard to steel it is reported that during the first half of 1949, the country has already imported 2,15,000 tons as compared to the total imports of 1,08,000 tons in the whole of 1948. In view of this, it may not be very necessary to perpetuate the system of making purchases by Government, as private enterprise can deliver the goods to the required extent quite economically. The imported steel and the idigenous produced steel may, however, continue to be pooled. In regard to inorganic fertilizers also it is reported that in view of the rise in prices, the Government may not go in for procuring chemical fertilizers and therefore the question of setting up an organisation to do so is not at all necessary.

The Committee would now like to revert to the points that have been pressed recently in support of State trading or setting up a State-sponsored organisation for conducting foreign trade.

1. Government have already undertaken State trading in some instances and therefore the experiment may be extended.

From what has been stated above it is abundantly clear that State intervention in foreign trade is neither desirable nor feasible in the existing circumstances. On the other hand, it is necessary to increasingly permit private trade to resume activity in spheres now controlled by the Government. It cannot be gainsaid that personal contacts which private traders have established with the manufacturers and suppliers in foreign countries are more efficient and profitable than State trading. There are definite signs of improvement in the supply position in the exporting countries. It is not necessary, therefore, for the Government to continue to import items like steel in the future on their own account. So long as control over internal prices continues, Government may merely regulate imports through licensing and also control the distribution of certain specified commodities by requiring the imports to sell at certain fixed prices.

The fact that Government has barter deals with countries like Russia, should not be an argument for extending State trading. India has not accepted the mechanistic conception of economics or the way of life followed by the Soviets. If it is maintained that a country like Russia, with which India has trading connections, desires trade being conducted on Government account, it is also pertinent to point out that other countries such as the British Colonies, are definitely against trade being conducted on Government to Government basis. In the Committee's considered opinion, our own beliefs and resources should, therefore, govern our conduct rather than what other countries wish us to do.

2. State trading will facilitate fulfilment of bilateral trade agreements:

The question of fulfilment of our obligations under bilateral or barter agreements entered into with other countries does not provide an adequate reason for continuing or extending the system of State trading in India. In the past, we have had bilateral trade agreements, for instance the Indo-Japan Trade Agreement, which, among other things, involved the exchange of raw cotton and finished cotton textiles. It was not felt necessary then that Government should handle the trade concerned. Trade was left to the normal channels, although perhaps the State exercised some measure of overall supervision. As regards the fulfilment of quota targets, the Committee feel that this can be done even now without the necessity of resorting to State trading. Government can grant to parties concerned adequate quotas for the import and export listed in the trade agreements and keep a watch without much difficulty over the whole matter.

In regard to commodities which are in short supply abroad, bulk buying is likely to push up prices and involve wastage of foreign exchange. As for commodities in short supply in the country, should Government step in the market, it will be a signal for a rise in prices. It will be better to leave procurement to private agencies for affecting both imports and exports.

3. State trading will help meeting post-devaluation situation.

It is argued that State trading would assist the control over internal and external prices of export commodities and also facilitate charging of differential prices and appropriation of surplus profit to the Exchequer. The idea behind multiple prices is that we might secure better prices for goods consigned to countries which have not devalued, for, on account of devaluation, Indian

goods would be cheaper in terms of currencies of those countries. It is regarded that a multiple price policy for our export trade will fetch more earnings. But the Committee have to point out that the exportable commodities which lend themselves to such differential price treatment are very few and recourse to State Trading for this purpose will raise more problems rather than benefit the country. The only possible way is to increase the existing duties and levy new duties on such goods whose competitive capacity will not be adversely affected in the world markets.

The Committee will now consider the suggestion of setting up a State-sponsored Corporation. The Committee would like to straightaway say that a State-sponsored Corporation, even if it is guided by a Board of Directors which includes non-officials, is bound to become the traditional departmental-bureau type of organisation. As an administrative device, it will suffer from the same drawbacks of any departmental transaction.

As far as the Committee can see, the urgent issue before the country is how to ensure import of supplies such as the raw jute and raw cotton at economic prices from Pakistan. In regard to raw jute, it may be noted that the Indian Jute Mills Association has already evolved a scheme which has been accepted by the Government. As for raw cotton supplies, favourable alternative markets are already being explored.

4. State trading will help export promotion, eliminate evasion of tax, secure better banking and exchange facilities abroad etc.

It is not known how State trading would help step up exports. On the other hand, State trading, which involves imposition of unimaginative and rigid rules on conduct of business, will be the last thing to assist our export drive.

The paucity of competent personnel with sufficient trading experience should serve as a pointer to discard all schemes of State trading. It may be noted that the Export Promotion Committee, which was recently set up by the Government of India, have recommended against the formation of councils for various important commodities because they fear that there is great lack of competent staff. If the lack of staff can come in the way of forming councils for important commodities, it can hardly be understood how any scheme of State trading on a large scale could be conducted under Government auspices. It would be profitable, therefore, to think of implementing the recommendations of the Export Promotion Committee in regard to liberalisation of export control, the institution of quality control, grant of drawbacks of the import duties on vital raw materials and refund of income-tax on a percentage of profits made from exports.

Foreign trade forms only a very small part of the total trade of India and under the existing regime of exchange regulation and controls it is easier to check tax evasion, if any, in the field of foreign trade. If it is felt that there is tax evasion, the solution is not State trading which will only adversely affect our foreign trade and eventually the finances of the Government, but greater vigilance on the part of Income-tax Authorities.

It is not known how State trading would help securing better banking and exchange facilities abroad. In fact, the immediate result would be to upset the working of foreign capital engaged in the foreign trade of India. It is estimated that some Rs. 175 to Rs. 250 crores of foreign capital is engaged in this business and any hasty step on the part of Government would perhaps only result in a flight of capital from the country, thus leading to various economic and political complications.

Another objection even to partial State trading at the present moment is the fact that it will displace a large number of small traders engaged in foreign trade from their lawful occupations and lead to serious consequences. Today on account of the various controls over the distribution trade a large number of men drawn from the middle classes have been deprived of their livelihood and compelled to seek alternative avenues of employment. Economic and financial repercussions of ousting a substantial part of private enterprise now engaged in foreign trade would further aggravate the problem. It must be the Government's responsibility to ensure employment and to take only such action as would promote and create and not curtail avenues of employment.

Moreover, sound principles of public finance demand that Government should not embark on schemes which are full of risks. Revenues of the State should normally be of a stable nature and should not tend to fluctuate violently from year to year. State trading, if resorted to, is certainly bound to create uncertainty about the revenues of the State. If losses were to be incurred in trading transactions, it would ultimately mean that additional burden would be placed on the tax-payers and on the national economy as a whole.

On the export side, the Committee consider that it may be worthwhile to form Export Associations on a commodity-wise basis. There are distinct advantages in unifying trade in particular commodities and to form Associations on a co-operative basis. Such Organisations will be able to secure the willing response of the trade to the exigencies of State requirements without at the same time losing the vigour and resilience of private enterprise.

As for promoting the sale of cottage industries goods, the Committee have to point out that export market for established items like handlooms have been built up by private enterprise. In regard to many other items, an endeavour must first be made to ensure that the supplies are regular. In the Committee's opinion it would be worthwhile to encourage tourist traffic and make it possible for increased sales of Indian specialities instead of spending money for popularising these goods abroad.

Finally the Committee wish to point out that private enterprise has made a definite contribution both in the import and export trade of the country; if there are shortcomings and defects in the present organisation of India's foreign trade, they have been only exaggerated by frequent changes in Government's licensing policy and the multiplicity of controls and unimaginative exercise of such controls by Government, resulting in business uncertainty.

The basic problem facing India's export trade, namely, the quality of Indian products, cannot be solved by State trading or a State-sponsored Corporation. Improvement in the quality of Indian products and the cheapening of Indian products, however desirable, are wider problems which have to be tackled at different levels than at the export point. The Committee consider that India's export trade can be promoted only through increasing productivity and efficiency and not through measures like State Trading.

The Committee have to emphatically point out that State trading or a State-sponsored Corporation or Corporations are not long-term solutions to any of the problems connected with our foreign trade. The changes brought out by devaluation cannot also warrant Government participation in foreign trade. It has to be remembered that after a period of time, some form of normalcy of trade operations is bound to come into being, and therefore, the question of State Trading should be judged by other considerations, the verdict of which is against State trading.

In this connection, the Committee wish to refer to the undesirable results that can flow, were the State to abrogate to itself a monopoly position in the trade. For instance, there was till very recently *i.e.*, the 17th November, 1949, State trading in tin; Government would not allow free trade in tin to function presumably because they held a very big stock of tin purchased at higher prices which would have been difficult to dispose of, if private imports were to have been allowed. According to a Press Note of the Government of India in the Ministry of Industry and Supply, dated November, 17, 1949, tin will be issued from Government stocks at Rs. 532 per cwt. ex-depots. It is understood that Government used to supply tin at Rs. 406 per cwt. before the devaluation of the rupee in terms of the dollar was effected in September. Although Government stocks had been purchased before the devaluation was effected, Government are themselves making profit on these stocks. This action goes counter to the prognosis of the Prime Minister in his broadcast to the nation on the 20th September that there is no inherent justification for a rise in prices of the commodities already imported from the Dollar Area, and his warning that any speculative action would be detrimental to the interests of the country.

The Committee strongly feel that Government who have decided to give up State trading in tin and propose to permit private trade to import steel, should not do anything that would neutralise the effect of their policy to liberalise the trade channels from restrictive controls. Government should also keep in mind that State participation in foreign trade will result not only in the dislocation of the trade but also lead to distrust in the minds of the overseas buyers and sellers who have through their past business connections with their Indian counterparts, established mutual confidence. Moreover, in the existing state of the Indian economy, any scheme to embark on State trading operations will result in a setback to the confidence which is slowly returning to the trading circles in the country. It is also wrong in principle to think in terms of State Trading as it repudiates our whole economic basis and political assumptions which recognise the need for an encouragement of useful private enterprise.

The Committee of the Federation, therefore, trust that the State Trading Committee will give their serious consideration to what has been stated above and advise the Government not to take any precipitate action which will raise more problems rather than meet the ones facing the country.

Punjab Chamber of Commerce, New Delhi

Memorandum to the Fiscal Commission submitted on 23rd February 1950

The Punjab Chamber of Commerce covers mainly the Punjab and Delhi and includes in its membership interests representing large-scale industries, imports and exports, distribution, wholesale and retail trades and banking and insurance. This is an area where economic life was badly shaken during 1947-48, and has not regained equilibrium even now. In the Chamber's view economic policy should aim at consolidation of the progress towards stability, a further increase in production, and at an expansionist economy generally. Fortunately, there are signs that the country has entered this phase already, and the immediate task is only to add a further momentum to the recent favourable trends. The Chamber, therefore, recommends:

(1) Existing industries should be helped in their schemes of rationalisation, and in securing adequate supplies of raw-materials, transport, working funds, and technical assistance. In the Punjab particularly, commercial banks are reluctant to advance loans to trade and industry, and a State-aided Finance

Corporation, an Industrial Bank, or an amalgamation of the various smaller banks is a virtual necessity.

(2) A further stimulus to investment through

(a) a substantial relief in taxation, including company taxation, to increase the ability to save and to invest;

(b) the removal of deterrents to industrial enterprise, such as statutory introduction of profit-sharing schemes, threats of nationalisation and State Trading, and the Industries (Development & Control) Bill which, even in its modified form, is a typical example of powerful disincentives which industry has to face today; and

(c) an assurance of Government assistance to industries by way of research, and in securing them machinery, industrial raw-materials and skilled personnel, including a Government guarantee of return in essential industries for certain limited periods.

(3) Encouragement of foreign investments in India, by

(a) a re-statement of policy, and an assurance that profits, royalties, and dividends, as well as the capital amount, may be taken out of India at any time, subject to considerations of foreign exchange; and, that equitable compensation would be given in the event of compulsory acquisition of any property, business or industry;

(b) the removal of discrimination against foreign capital in matters of taxation and a guarantee of no-discrimination in the future through taxation or otherwise;

(c) the early conclusion of agreements for the avoidance of double taxation;

(d) other stimuli to investment and the removal of deterrents mentioned in paragraph (2) above; and

(e) a more positive approach to labour as explained in paragraph (4) below.

(4) A more constructive attitude towards labour, including a material reduction in the prices of foodstuffs, a policy of wage stabilisation, the relating of working hours to efficiency, greater uniformity among different States in Labour Legislation, and the abandonment of schemes which involve considerable expense, but have no direct or immediate bearing on efficiency.

(5) Top priority for all multi-purpose projects like the DVC and Bhakra and Nangal which would help to generate electric power and therefore help in further industrialisation; and (2) increase the production of food and reduce imports of foodgrains.

(6) Steps to link up cottage and small-scale industries as feeders of the bigger industries except where they are themselves makers of the finished goods.

11. In the Chamber's view, these measures would from an essential background to any helpful and effective fiscal policy. As for tariff measures, industries which are necessary for Defence or which form the basis for further industrialisation in the future (machine tools and heavy chemicals) have obviously to be developed, and necessary protection given to them. For the others, the only condition should be that the expenses of production are such that give a reasonable hope that protection would be unnecessary after a reasonable time. On the other hand, the criterion of natural advantages should perhaps

be put in the negative; and an industry should not be given protection if it has no natural advantages.

Apart from this, there should be tests for continuing protection as much as for the grant of it. All industries cannot be granted protection, and protection once given cannot be continued indefinitely. There should be calculated regularly for each protected industry, index numbers of cost of production for purposes of comparison; and protection itself should be at a diminishing rate to guarantee increasing efficiency, and a progressive cutting down of costs.

Subject to these considerations—and others relating to foreign exchange resources--India should have the freest trade possible.

(2) The Tariff Board should assume a more positive role and cease to be merely a sort of a judicial machinery weighing nicely evidence of costs and prices. It should be a permanent body with a permanent secretariat functioning from day to day; examine references made to it without unnecessary delay; and continuously watch the progress of an industry under protection and recommend changes in the rate of protection as circumstances arise.

The Tariff, Board, secondly, should consist of both officials and non-officials, though not necessarily of parties interested in a particular industry.

(3) The Chamber's interpretation of the Havana Charter is that a commercial policy as is suggested in paragraph (1) above would be permitted, and the Chamber, therefore, recommends adherence to the Charter and the consequent participation in the International Trade Organisation.

The Aluminium Corporation of India Ltd., Calcutta

Introduction.

At the very outset, we feel it necessary to describe the importance of Aluminium Industry and explain how it developed in India as well as in other parts of the world. It is, however, not necessary to describe the usefulness and utility of this most important light metal as well as the importance of its being produced in this country. All these factors have been thoroughly gone into by various Committees set up by the Government of India from time to time including the Tariff Board. We will limit ourselves to making this observation that Aluminium is the only non-ferrous metal which can be produced in abundance in this country due to large deposits of bauxite and potentiality of cheap Electric Power. There is no possibility of developing any other non-ferrous metal industry as no large deposits of raw materials have been discovered yet.

This important metal was first isolated in the year 1825 by a Danish Scientist, Hans Christian Oersted and at that time it was, probably, never expected that this was going to take such a gigantic shape in years to follow. This metal was more precious than even gold and silver, as in 1852, it had been quoted at about Rs. 1,600 per lb. It was as late as 1886 that Charles Martin Hall in America and Paul Herault in France discovered almost simultaneously the secret of producing cheap Aluminium by use of cryolite as flux and it brought down the price to Rs. 2-8-0 per lb. In fact, today, the price of this metal is not even Re. 1 per lb. and this is the only metal, the price of which is lower than pre-war level.

Price since 1920.

It is also appropriate to mention here that the basic price of this metal has dropped considerably from pre-war level. In fact during war the price was lowest. Even at the moment the price is lower than what it was before

the war and probably this is the only commodity in the world the price of which is lower than 1939 level. The following figures will indicate the price reduction from 1920 onward:—

1920	33·3 Cents per lb.
1925	28·2 do.
1930	23·8 do.
1935	19·5 do.
1939	20·0 do.
1940	18·8 do.
1941	16·5 do.
1942	15·0 do.
1943	15·0 do.
1944	15·0 do.
1945	15·0 do.
1946	15·0 do.
1947	15·0 do.
1948	15·7 do.
1949 Upto July	17·0 do.
Dec. 1949	14·1 do.

Production

According to the Tariff Board Report on Indian Aluminium Industry, the total production of Aluminium in the world was 7,300 tons in 1900; it rose to 680,000 tons in 1939 and it exceeded 3 million tons in 1943. The production of no other non-ferrous metal expanded anything like that of Aluminium. The total production of Aluminium in U.S.A. and Canada (North America) the most important Aluminium producing countries of the world had gone as high as 1½ million tons during the war and even at the present moment, they are producing about 1 million tons per annum. The production of the rest of the world hardly exceeds ½ million tons. Even though U.S.A. and Canada are the biggest producers of Aluminium in the world and they have got cheap and abundant electric power and other raw materials like Caustic Soda, Petroleum Coke and Fuel Oil etc., the Governments of these countries gave them all possible support in developing this industry to reach to this gigantic size. The Aluminium Company of Canada which owns and operates the largest single integrated plant for manufacture of both Alumina and Aluminium was allowed a special depreciation to the extent of about 40 per cent. of its production cost in order to write off the value of the plant. We are giving below the cost of aluminium pig ingots produced by Aluminium Co. of Canada during the peak years of the war *i.e.* 1942 & 1943.

ALUMINIUM COMPANY OF CANADA

Aluminium pig ingots cost in cents per lb. produced

	1942	First half 1943
1. Total cost of production per lb. including depreciation & miscellaneous plant expenses	11·09	13·14
2. General property Expenses	·14	·04
3. Proportion Administration & General Expenses	·33	·27
4. Special Depreciation	5·44	5·48
	17·00	18·17
5. Interest (proportion)	·26	·24
Total Costs	17·26	19·17
6. Average price, Invoiced to U.K. Government including esclation allowance	21·01	21·75
7. Profit on U.K. Contracts before taxes	3·75	2·58
8. Proportion Income Taxes	1·06	·62

	1942	First half 1943
9. Profit on U.K. Government Contracts after taxes	2·75	1·96
10. Percentage profit before income-taxes to costs	22·0%	13·7%
11. Percentage profit before income-taxes to selling price	17·8%	11·9%
12. Percentage profit to sales after due proportion income taxes	13·1%	9·0%
13. Base Price	17·5	16·0
14. Esclator Addition	3·51	5·75
	21·01 C	21·75 C

(Souree:—Third Report of the Special Committee on War Expenditure to Canadian House of Commons, Jan. 26, 1944.)

From the above figures it will be noticed that the actual cost of production in 1942 was 11·09 cents including depreciation but they were allowed a special depreciation of 5·44 cents per lb. and the metal was sold to the U.K. at 21 cents per lb. which is practically double the actual cost of production. In fact, they realised a little over 22 per cent of profit from such sales and at the same time wrote off the value of the plant.

U. S. A. Government Assistance to Industry

Further assistances were given to producers of Aluminium in the U.S.A. by the War Assets Corporation of the Government of U.S. by leasing the Aluminium Plants built during the war for very nominal return and by selling some of these plants at almost 25 per cent of original cost. As for example in 1946, Permanante Metal Works belonging to Kaiser Fraser Group got the lease from War Assets Corporation of two Government owned Aluminium plants at Spokana, Washington and Reynolds Metals Co. leased largest Aluminium plant at Hurricane Creek, Arkansas, with annual productive capacity of 1 billion 55 million lbs. and Government owned Aluminium Reduction plant at Jonesmill, Arkansas. Some of these plants were later sold at almost ¼ of its costs, *e.g.* Alcoa purchased the Massene Plant in N.Y. State which has a capacity of 108,000,000 lbs. a year and which originally costed 19 million dollars at a sum of 5 million dollars only. In the same way, the River Bank plant also of the same capacity *i.e.* 108 million lbs. a year was sold at a similar price (ref. Modern Metal 1948 issue).

Policy of Great Britain, Japan and France Government

In Great Britain, the cost of production of Aluminium is not as cheap as in North America and this Industry has been developed there by Government help by controlling Imports of metal and besides Government gives some subsidy. It protects itself by being the only purchaser of ingots both indigenous and North American and also from its subsidiary companies in the continent and exports most of the metals in form of sheets and circles which gives them a high margin of profit and compensates for the high cost of their own production of ingots. We will explain at a later stage the benefits derived from rolling ingots into sheets and circles. France, which also produces a large quantity of Aluminium cannot compete with North America even though it has large deposits of bauxite and cheap hydro-electric power. This industry is still protected—the protective duty running to as high as 25 per cent. In Japan starting from a scratch output of 19 tons in 1933, the fourth largest Aluminium Industry in the world was built up within 10 years. Attaining self-sufficiency at a production level of about 20,000 tons a year in 1938, the production was accelerated to a peak of 150,000 tons of metal in 1943. This

rapid development and growth of the Industry was mainly due to the active help of the Japanese Government by stopping all imports and by subsidising the price by various Government measures. In fact, the highest import was in the year 1935 *i.e.* about 12,000 tons but in 1938 it went down to zero.

World Cartel

In 1926, a strong International Cartel was formed incorporating the British, French, Swiss and German Producers. In 1931, Aluminium Ltd., representing the Canadian interest and one of the largest producers of Aluminium in the world joined the Cartel. They absorbed most of the Aluminium producing capacities in the world, their policy being to dump cheap metal in that particular country which started producing this metal and did not choose to join this Cartel. The Cartel activities, however, ceased shortly before the war in 1939 when Germany went out of the Cartel with a view to control her own imports.

Uptil 1937 India was merely a fabricator of domestic utensils. It used to import mostly circles or rounds and had to depend entirely on imported circles from the members of World Cartel. Sometimes near about 1930, due to irregular supply of imported circles, one of the biggest Indian producers of Utensils had to sell out its entire plants, machineries and goodwill to the Canadians and thus came into existence the present firm of Messrs. Jeewanlal (1929) Ltd.* Under this Indian name, the Canadians were producing utensils and selling these into this country and adjusting the profits as it suited them by billing to this company such prices of circles as the profits demanded.

History of A.C.I. Ltd.

In the year 1935/36 the sponsors of this Corporation started investigating as to how this metal could be produced in this country economically. Considering the price of metal then ruling and after analysing the various costs of production they considered that it was a practical and economic proposition to start producing Aluminium in this country. A Special Mission including Indian technicians and with samples of Indian bauxite, coal and petroleum coke was sent to Japan, England, Czechoslovakia, France, Germany and Holland. After a thorough investigation they came to the conclusion that they will have no help from America and Canada. It was possible to obtain technical help only in Germany and Czechoslovakia and Norway where the samples of Indian bauxite and other raw materials were tested and in 1937 a scheme was drawn up and an order for a complete plant was placed with the Czechoslovakian and German firms, of a capacity to produce 2,000 tons of aluminium ingots, with the minimum economic size of alumina plant of 5,000 tons per annum capacity. This plant is a completely integrated one right from the Power Generation to the finished products. The whole works are situated at the pit head of our own colliery. It consists of a Thermal Power Station, Alumina Plant, Reduction Plant, Electrode Plant, a small Rolling Mills and Utensils Fabrication plant, that is, right from the dressing of Indian ore to domestic hollow wares. Although the present capacity of our Works is 2000 tons, our Reduction Plant is capable of expansion upto a production of 10,000 per annum and the capacity of our Alumina Plant can be increased to 20,000 tons annually. The Corporation has its own bauxite mines situated within a radius of 150 miles from the Works and it has developed a full-fledged township for housing of labour and has provided first-class buildings equipped with modern sanitary fittings, roads, water works, markets, dispensary etc. and the accommodation is provided free to all the employees employed at the Works.

*Formation of Jeewanlal (1929) Ltd.

Delay due to War

Unfortunately, the war broke out in 1939 and the entire plant could not be shipped from the Continent. About 2/3rd plant arrived in India and remaining 1/3rd remained behind. Since only 2/3rd of the plant arrived in India and there was no hope of getting the necessary 1/3rd of the plant which consisted primarily of Power House equipments and since we could not get technical personnel which were expected to come from Germany and other parts of the Continent, further progress of the work came to a standstill in 1939/40 and we just could not do any further.

Roger's Mission and Government Assurances

In 1940 Roger's Mission visited India and inspected our Jaykaynagar Works. After a thorough inspection it came to the conclusion that the works was most appropriately situated to develop this Industry and recommended to the Government of India as well as to His Majesty's Government that all possible help should be given to this Corporation to produce Aluminium from Indian Bauxite as early as possible, as during those days, import of aluminium from America was a difficult task and this metal was very badly required for defence purposes in our country. We had several discussions with the Commerce Department of the Government of India and we were given various assurances by their resolutions, notifications, etc. and were asked to go ahead to complete this plant. The Government promised to help us in all possible ways for securing the remaining portions of machineries and also for obtaining the necessary technical help from abroad. We were further asked to keep on spending whatever money was required for completion of the plant according to the recommendation of the Special Officer appointed by the Government for the purpose. We had been further assured that we would be given a reasonable return on the capital invested when the plant started production. With all these assurances, we kept on working with full zeal and the Managing Agents of this Corporation had been able to secure whatever capital was required in some form or other for building up of this Corporation. In 1942, we started production of Alumina. In 1940, the Government of India had also assured us that immediately we start producing alumina it would be taken from us for supply to the other Aluminium concern which was dominated by the Canadians and who were having their reduction plant in Travancore and were importing alumina from North America under high priority. Unfortunately, the Government of India were not able to persuade the other concern to buy our Alumina, as they represented that our Alumina was not of the required quality in spite of our satisfying them by tests or otherwise. Up to that time the Government of India had not been able to give us any technical help. They negotiated with the Aluminium Co. of Canada for sending some of their experts to examine our Alumina Plant and to improve the quality of Alumina if it was not of required standard. Three Canadian Experts* came to India at the end of year 1943 at a very heavy cost. These experts were at our Works for about six months but we did not receive any material benefit. While at our Works, they were following direct instructions of the Government of India's Supply Department and they were regularly submitting reports to the Government. We were simply asked to give them all possible facilities and assistances, which we ungrudgingly accorded. After they had spent a few months, we noticed that no material benefit was being derived from various costly changes in process made by them and we understood from them that they were experimenting as to how Indian Bauxite behaved which could help them to modify their own Alumina plant which they were putting up in India, and our presumption proved correct subsequently as one of the gentlemen was sent to India as the Managing Director of their Indian concern and the other as their Works Manager of the Alumina plant at Muri. We

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*Canadian Experts.

strongly represented this matter to the Government. At the end of six months, they left us after certifying that we were producing alumina of required quality and with best efficiency; they were not able to suggest us any remarkable improvement. We again approached the Government with a request to stop import of Alumina from America and insist on the other producer to utilise our alumina, specially when the shipping space was so scarce in those days; but in spite of all our representations, Government of India was unable to persuade them to use our Alumina though the same was certified to be a required quality by their own experts.

Production of First Aluminium from Indian Bauxite

The balance of the Power Plant, which was ordered out from England and a portion of which was once sunk by enemy action and re-shipped from England, arrived in India as late as in 1944. If the plant had arrived in time we would have started production of metal by the close of the year 1942 as was our programme; but on account of the late delivery of the plant from England in spite of the highest priority granted by the Government, we could produce the first metal from Indian Bauxite only on 10th July, 1944. But by that time, war requirements had almost ended and the Government was faced with the problem of supplying the metal to the civilian market which had been starving for the metal for five long years as the total imports of aluminium during the war were wholly utilised for war purposes. It will not be out of place to mention here that during all this period, the Corporation trained up a team of Indian Technologists, mostly graduates from the Indian Universities and a few from foreign Universities also, in the various technical processes of production of aluminium from Bauxite, immediately after the war ended we contacted and imported foreign technicians for such operations which required further improvements by latest methods. A few large producers of Aluminium in America other than the Aluminium Co. of America and the Aluminium Co. of Canada who have their interests in India were also approached and their representatives came and visited our plant; similarly large producers in France and Italy were also approached and various negotiations for collaboration were carried on for improvement in technique of production

Aluminium Pool and price fixation

In the middle of 1945, the Government of India created an Aluminium Pool which took control of indigenous and imported aluminium and released the metal for civilian consumption at a pool price which was much lower than the indigenous cost of production. The Government fixed the prices of both the indigenous producers after a detailed examination of the cost of and after disallowing certain important items of expenses. The prices fixed by the Government as well as actual cost of production of this Corporation are detailed below year after year starting from the date of production:

Financial year (April to March)	Actual Net cost (without profit)	Price fixed by Government
44/45	Rs. 8,344/- per ton	Rs. 3,538/- per ton on production upto 31st Dec. 1945.
45/46	Rs. 3,460/- per ton	Rs. 2,850/- per ton.
46/47	Rs. 2,937/- per ton	Rs. 2,850/- per ton.
47/48	Rs. 4,024/- per ton	Rs. 2,850/- per ton on production upto 30th June 1948.
48/49	Rs. 3,780/- per ton	Rs. 3,200/- per ton on production from 1st July 1948 to 14th May 1949.

It will be noticed from above that the Corporation has received no profit whatsoever, in fact, we have not been allowed even the full depreciation, what to speak of any return on capital.

High production cost and power

We would like to mention that the main reason for higher production cost of the Corporation is the complete change in economy of power generation in India. It is a well-known fact that no spare hydro-power was available at cheap rates to any centre before 1937 and it is not even today. As stated earlier, our plant was erected at the pit-head of the coal mine to produce thermal power as it was estimated that the cost of production would be in the neighbourhood of about 0·1 of an anna per unit, basing on the then coal price of Rs. 2/4/- to Rs. 2/8/- per ton at the pit-head. Since then the cost of coal raising has gone higher and higher every year and the present cost of mining coal is about Rs. 15/- per ton resulting in the cost of generation of power to us @ about 8 pies per KW. We shall describe later the effect of this high power cost on the cost of Aluminium production but from the statement given below it will be noticed that the Corporation was losing constantly from the date of its inception with the result that we have not been able to pay interest even on preference shares:

	Year Ending		
	31-3-47	31-3-48	31-3-49
Receipts.—			
Sales of our own production	42,98,211	20,88,320	51,60,358
Expenditures.—			
(*a*) Wages	17,65,254	16,56,922	21,33,949
(*b*) Raw materials & stores consumed	10,94,359	14,49,820	15,60,377
	28,59,613	31,06,742	36,94,326
(c) Others including other misc. manufacturing expenses, interests including debenture interests, royalty & cess, insurance, etc.	5,39,311	5,20,361	5,72,422
Total	33,98,924	36,27,103	42,66,748
Depreciation	15,15,901	14,57,855	14,00,513
Grand Total	49,14,825	50,84,958	56,67,261
Net Loss for the last 3 financial years	6,16,614	29,96,638	5,06,903
Total			41,20,155

Thus, there is an unabsorbed depreciation as on 31-3-49 to the extent of Rs. 61,03,722.

Tariff Board

We made repeated representations to the Government on the subject showing our inability to exist and we were assured that the Tariff Board was being set up to go into our affairs and to give us a suitable relief to enable this industry to remain in existence. The Tariff Board was set up and started examination early in 1946. The members of the Tariff Board visited our Works and our representatives were examined elaborately at Ootacamund. The report of the Tariff Board was submitted to the Government of India by end of 1946. By that time the Government changed and the Interim Government took charge; when the representatives of the Corporation saw the then Hon'ble Minister of Commerce, they were told that the Hon'ble Minister was not

interested in a long range policy of the country and that the matter will be re-examined. The matter thus remained in melting pot. India attained Independence in August 1947. The matter was further pursued and an *Ad Hoc* Committee was appointed by the Ministries of Commerce, Finance and Industry & Supply to again go into the matter. Unfortunately, it again took another two years before the Committee could finalise its findings and we had no alternative left but to continue working of the Factory even at a big loss as a closure would have meant total stoppage of the plant for a long time and thus disbanding the team of technicians and workers who were trained for this particular industry at a great cost. We kept this National Industry running with sincere hope that the Government will come to our rescue and it was only in May 1949 that the final figures of protection including subsidy* were announced by the Government. These figures when worked out shows the following picture:

	1949-50	1950-51	1951-52
	Ingots Rs.	Ingots Rs.	Ingots Rs.
Government estimated Landed Cost per ton C.I.F.	1,275	1,275	1,275
30% *ad volorem* duty	382	382	382
Protective duty	328	237	146
Subsidy	900	825	750
Final price realisable by us	2,885	2,719	2,553

Devaluation

We again represented to the Minister of Commerce and Industry & Supply Ministry, Government of India, that it will not be possible for us to work the Corporation at this rate of protection and we were told that the case will be re-examined by the Tariff Board after a year. The devaluation, however, has come to our rescue to a certain extent and we are giving below its effect on present price:

Effect of devaluation on Landed Cost of Al. Ingots

	Before Rs.	After Rs.
Price per ton cif including landing charges..	1,437	1,647
30% ordinary duty *ad volorem*	423	488
Protective Duty	328	328
	2,188	2 463
Subsidy	900	900
	3,088	3,163

Disposal of Metal

We wish to make a mention that since we started production of the metal in 1944, we had to cross another hurdle and that was the disposal of our metal though the quality produced by us was proved by examination in Government Test House of required purity, *i.e.*, above 99 per cent. In spite of India's heavy import of Aluminium no heed was given for relieving us of stock of our ingot production. We constantly approached the different Ministries and also personally contacted the Hon'ble Ministers but disposal of our metal was linked up with Messrs. Jeewanlal (1929) Ltd. which concern, as stated before had been dominated by Canadian interests and who were the main importers of the metal pre-war as well as during the war. We were told that the pool being an interim arrangement, will last for few months only and will be replaced by a permanent policy of Government; unfortunately it took

*Protection and Subsidy.

five years for the Government to decide that permanent policy and during the course of these five years we made a number of representations to de-link ourselves from Messrs. Jeewanlal (1929) Ltd. and it was in middle of 1948 after a very great difficulty that we were allowed to dispose of our metal direct. We may make it clear that although we were admitted as a member of the Pool in 1947, we had no powers to dispose of our own metal and it was only Messrs. Jeewanlal (1929) Ltd. who were solely responsible to operate the Pool. On our very strong representations both in writing and in person and after proving that huge quantities of metal were being imported and our indigenous production was placed at a disparity to the consumers, who were mostly in Bombay, to an extent of about Rs. 100 a ton, we were allowed to liquidate our stock direct only from middle of 1948 onwards. In other words, we had to carry a heavy stock throughout for four years since we began to produce the metal.

Cost

It is necessary for us to give some idea about the cost of production of this metal and explain the reason for high cost of Indian producers. As described earlier, North America is the biggest producer of aluminium, even though it does not have a sufficient quantity of Bauxite and most of its Bauxite is being imported from British and Dutch Guinea and some other places. The cost of Bauxite is not more than 5 cent. of the total cost of production of Aluminium whereas the cost of power ranges between 35 to 40 per cent. Therefore, it is imperative that an Aluminium Factory should be situated at a place where cheap electric power is available. The total cost of aluminium production may be divided into three heads—

(i) cost of power 40 per cent.

(ii) depreciation 30 per cent., and

(iii) other costs including bauxite, caustic soda, coke, pitch, labour, etc., 30 per cent.

The cost of power as mentioned previously is one of the biggest determining factors for production of cheap aluminium in this country. The table below shows the power costs at certain electrochemical centres of the world—

Source of power locality	Source of power	Power cost in anna per KWH
Arvida, Canada	Hydro	0·044 to 0·066
Ontario, Canada	Hydro	0·066 to 0·176
Shawiningan Falls, Canada	Hydro	0·044 to 0·066
Norway	Hydro	0·044 to 0·066
Sweden	Hydro	0·044 to 0·066
India (Travancore State)	Hydro	0·154 to
Damodar Valley (proposed)	Hydro	0·20

From the above table it is evident that Aluminium Co. of Canada, which operates the biggest single aluminium plant in the world gets its power at the cheapest rate of 0·044 anna per KWH. The lowest price of current reported in India is 0154 anna per KWH charged by the Government of Travancore for aluminium industry, while the proposed rate offered by Damodar

Valley authority to this Corporation is still higher *i.e.* 0·20 anna per KWH, which is five times higher than the cost of power in North America.

The high depreciation needs some explanation too. With today's price of machineries and other supplies, installation cost of an integrated aluminium plant nears about 4 to 5 times the total value of the annual output of metal. The installation cost of an up-to-date aluminium factory complete with power plant works to Rs. 12,000 to Rs. 15,000 per ton aluminium per annum, whereas the cost of metal is near about Rs. 3,000 a ton. Thus the production unit is much smaller than the capital outlay and for this reason the depreciation per ton works out to a higher figure. The low depreciation of North American aluminium factories is due to big production units. The Arvida Works of Aluminium Co. of Canada produces over half million tons of metal in one single plant, while as mentioned earlier the Hurricane Creek plant in Arkansas in U.S.A. has an annual productive capacity of about 70,000 tons of metal.

To compensate for this the American producers devised three methods:—

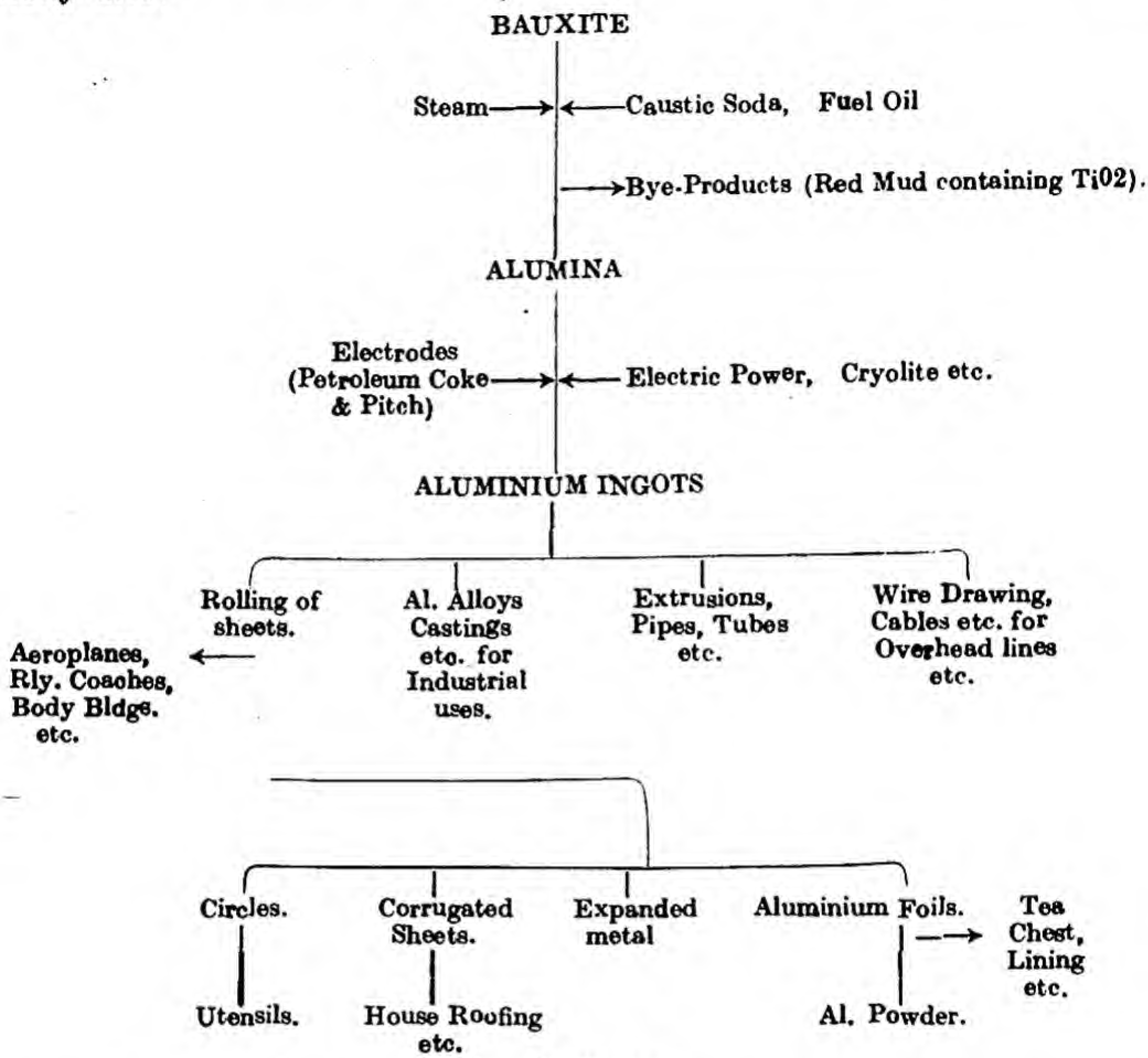
(1) writing off the total installation cost of their power plant by the State and supplying very cheap electric power to this industry which is a bulk consumer of electric energy throughout the whole year with a constant load factor thus improving the power factor and reducing the cost of generation considerably,

(2) allowing a very high rate of depreciation on Capital outlay as indicated earlier, and

(3) in number of cases selling off Government plants at practically ¼th of the total cost.

Thus it will be noticed that the two heads of cost of production are being reduced by these methods of North American country. Further, it will not be possible for this industry to survive in this country as Ingot producers alone without a heavy protection. It is, therefore, necessary to view this industry as a combined unit for production of Ingot as well as Rolled and other finished products *i.e.*, sheets, circles, foils, powder, castings, wires, cables, etc. For the time being India consumes aluminium mostly for production of utensils and domestic hollow-wares and after the partition of the country our total consumption is not more than 9,000 to 10,000 tons per annum. Due to low cost of imported metal there is no likelihood of export of this metal for some time to come, and therefore, the indigenous production should confine only to the internal consumption and we should aim our production to about 10,000 tons per annum until such times when consumption increases due to various industrial uses of aluminium which will depend primarily on installation of plants for producing capital goods. Such plants may take, at least, 10 years or more to establish and even then for next five years the requirement of the metal would not be more than 20,000 tons. The secondary metal which returns to the industry in shape of broken utensils plays a very important part in this metal as it amounts to 25 to 30 per cent.

We give below a chart showing broadly the materials required for producing alumina and aluminium ingots as well as products of aluminium which are widely used:



Bye-Products

The Indian bauxite contains a high percentage of Titanum (Ti02) which is thrown out as Red Mud. Ti02 has been separated from the red mud by the Council of Industrial and Scientific Research. We have also carried extensive researches in our own Laboratories. It is not yet an economic success as manufacture of Ti02* from its ores is still cheaper. The capital expenditure of a complete plant to recover Ti02 including a Sulphuric Acid Plant costs many times more than a Alumina Plant today.

Rolling Mill

For the time being, as India is consuming aluminium mostly for household utensils it is necessary that Aluminium Works should consist of an up-to-date rolling mill to produce sheets and circles. There is a margin of profit in rolling as will be evident from the difference in cost of sheets and ingot.—It comes to nearly Rs. 1,569 per ton taking the fresh imported prices of Ingot Rs. 2,463 and Sheet Rs. 4,032. The present rolling capacity in this country is quite inadequate and unless we have a composite unit upto the sheet production sufficiently big to cope with total ingot production and secondary metal this industry will have to expect heavy protection on the ingot production and also till such time when we are in a position to write off a good amount of installation cost of capital expenditure for new hydro-electric projects and supply

*Bye-product.

much cheaper power to this industry. We are aware, however, it has frequently been voiced that any kind of protection is a burden on the consumers. We may point out that the consumers' burden is a very wide term and it should not be seen from a narrow range of vision. There is no doubt that the cost of protection is paid by the country but eventually in the long run the consumer gets the benefit of same. The Steel & Match Industries are living testimonies to a sound protective policy. The cost of Indian Steel is the cheapest in the world and it is the Indian consumer who is getting the benefit of same. On certain manufactures Japan is charging 25 per cent. more price for home consumption in order to expand the export trade as this eventually helps the country. England likewise exports cars of its own manufacture at a much cheaper rate than it charges to its own consumers. It may not be out of place to mention, for the benefit of the consumers, that till the day this Corporation first started the production, 10th July, 1944, this metal was being sold in this country at Rs. 7,700 per ton and as soon as our metal came in the market, the consumers got the metal at Rs. 2,300 per ton.

Tariff Board Recommendation

Inadequate protection given by the Tariff Board.—It is not our desire to go in details of the examination of the Tariff Board, but we wish to bring to your notice one very important matter of policy, *i.e.*, the method of allowing profit to the industry. If it is expected that the public should come forward and invest capital in a new inudstry, it is necessary that a suitable return should be assured to the investors. As mentioned previously, the installation cost of an integrated Aluminium Plant is proportionately much higher than the value of its annual output *i.e.*, investment per ton of metal is higher than in other industries. As mentioned in the Report of Tariff Board on Aluminium Industry on page 17, the usual practice followed by the Board is to allow 4 per cent. interest on Working Capital and 10 per cent. profit on the block. But unfortunately while calculating the profit in the case of aluminium industry they have not calculated it on the percentage of Capital but have allowed only 10 per cent. on the cost of production. This is a very novel procedure. This is quite unlike the procedure which was followed in case of the Steel Industry when their case of protection was examined by the Tariff Board over which the present the Hon'ble Finance Minister, Dr. John Mathai, presided.

The Indian Tariff Board which conducted the enquiry on the Iron & Steel Industry in 1934, arrived at the fair price which the manufacturers should get as under:—

Over and above the actual Works costs the following items of overhead charges were added:—

(1) Depreciation at a weighted average of $6\frac{1}{4}$ per cent. on the value of plant which was assessed on the basis of production capacity.

(2) Interest at 6 per cent. on the Working Capital which was reckoned as being equivalent to 6 months' Works Costs.

(3) Managing Agents' Commission and Head Office expenses.

After allowing the above, the Board allowed the all round rate of 8 per cent. on the value of fixed assets as the Manufacturers' Profit.

The Indian Tariff Board of 1946, however altered the above principals to allowing of—

(1) 4 per cent. interest on Working Capital, and
(2) 10 per cent. on the bloc as manufacturers' profit

According to the Tariff Board the profit allowed to Aluminium Industry *i.e.* at 10 per cent. on cost represents 2½ per cent. on the block and working capital together but in actual fact there is practicallly no return whatsoever on our investments as we have already noticed from the figures of cost and production submitted on page 9. It is a recognised principle that depreciation should be calculated on the replacement value of the plant which in our case is over 3 crores of rupees at the present market price, *i.e.* the cost of the installations of the plants at our Works is not even half the present day cost. If any new plant of the same capacity as ours is installed, it will cost much more than what we originally paid. Unless the Government changes the policy of paying on cost of production and not on the block this industry cannot continue to exist. Even the Industrial Finance Corporation of India charges 5 to 5½ per cent. interest from industrial concerns. How is it possible that any investor will come forward to put money in a new industry like ours which has given no return and which does not expect to give return? Even the Managing Agents of the Corporation have not drawn a single pie as their remuneration, on the contrary, they have been contributing substantially from their own pockets to keep this industry alive.

The Government has to create conditions so that this industry should not only survive but should be in a position to expand and to prosper.

C. P. Government & Aluminium Industry

About 2 years ago the Government of Central Provinces purchased from a Swiss company a Power Plant for putting up an aluminium factory in C.P. The plant was originally meant to be erected in South Wales in Great Britain during pre-war days but it could not be installed there and was available for sale. It is not necessary to go into details of high prices, etc. which they have paid; the Power Plant has been purchased and has been imported in India and is still lying idle. So far our knowledge goes they have not yet decided when and where to put up the plant; also we hear that one crore of rupees has already been sunk for this purpose. We have on many occasions pointed out to the Director General of Industry and Supply and have also submitted in writing that the C. P. plant if installed and worked on the present basis, will require, at least, a capital investment of Rs. 5 crores and will not produce more than about 3,000 tons of Aluminium per annum and the cost of production will be 1½ times than ours. We must give serious thought if under the circumstances it is worth while that the Government of our country should themselves take up such schemes and utilise public fund for such purposes. We have suggested that since the power plant has already been purchased and paid for it may be erected in combination with our plant and in such case there will be a further reduction in cost of production at our end and we may be, in the long run, the cheapest producer in the country. But all these projects require further capital. But since the condition of this industry has been such that we have not been able to pay dividend even on the preference shares uptil now, we have no face to go in the market to raise capital and especially in the present day stringent money market. It is impracticable that any capital investment can be had from the public unless the Government comes to the rescue by advancing finance.

Foreign Capital

We understand that lately the Ministry of Industries & Supplies had been advocating the possibility of getting some foreign interests to come and establish a bigger unit for Aluminium Production in this country and to ignore the existing industry which had been struggling for existence from its very infancy.

Our Works are situated in the area covered under Damodar Valley Scheme and one of the Dams (Maithon) which probably may be constructed in a year or two is hardly 20 to 25 miles from our factory. Similarly, Bokharo Thermal power station which has already been ordered out is also not very far away from our Works, distance being about 60 miles, as crow flies. Under the advice of the Director General of Industry & Supply we had some discussion with Damodar Valley authorities regarding supplying us about 25,000 kw. energy to produce aluminium and we were offered a rate of Rs. 110/- per kw. a year in bulk. To convert it into D.C., we will have to install a rectifying and converting plant at our end. This A.C. power when converted into D.C. will cost to us 3·95 pies per unit. We consider that all the power which will be generated by the Damodar Valley authority under various schemes will not be consumable immediately as it will take some time for consuming industrial unit to develop and, therefore, we think that we are ideally situated to absorb bulk of power almost immediately.

Conclusions

In concluding we will suggest that an industry like ours requires the following help from the Government:—

1. An adequate protection from foreign competition to enable the industry to survive; it should be able to distribute a minimum dividend of 6 per cent. free of Income Tax, at least, an equivalent amount for reserves.
2. A capital loan to the industry, free of interest to the extent of Rs. 5 crores for a period of 20 to 23 years till this industry is able to stand on its own legs.
3. Only such quantity of metal should be allowed to be imported which is necessary to meet the country's demand after the indigenous production has been completely absorbed.
4. Since the Government will develop many power projects in near future, cheap power should be supplied to build up this industry.
5. Other facilities like cheap transport charges, duty-free importation of machinery and raw materials as recommended by the Tariff Board should be granted.

We feel that unless the above conditions are created by the Government, it will be very difficult for an industry of this nature to get established on sound economic basis and which may survive against foreign competition.

Question No. 1.—Do you consider that the economic background in the country has so altered since the Indian Fiscal Commission reported in 1922 that it necessitates a fundamental change in the approach to the problems with which the present Commission is concerned?

The general economic background of the country has not altered materially since 1922 to justify a *fundamental* change in the approach to be adopted towards the fiscal problems. A more independent and liberal attitude towards the question is all that is called for by the changes that have taken place.

The most important change is the substantial increase in population. The population of undivided India increased from 306 million in 1921 to 389 million in 1941, *i.e.* by 27 per cent. The increase for the Indian Union is estimated to be of the same order. The pressure of population on land, which was already very heavy in 1922, has in consequence become more intense and the urgency of developing industries at a rapid rate to relieve this pressure on land has become very great.

While there was an addition of 83 million to the population of undivided India and of 67 million to that of the Indian Union, employment in large scale industries between 1923 and 1941 improved only by 9 lakhs. The growth of industries since 1922 also created indirect employment in agriculture and trade. But against this, allowance must be made for the adverse effects it produced on small scale and cottage industries. On the whole, therefore, if at all there has been any increase in employment, in relation to the growth of population it is insignificant. This situation calls for a well considered population policy to check the wild growth in numbers, but it also emphasizes the need of a much quicker and all round development of industries than has taken place during the regime of discriminating protection.

The other changes in the economic background are of smaller significance but they will have to be taken into account in formulating a correct approach to the fiscal problems. These changes are enumerated below:

As a result of the policy of discriminating protection, the impetus given by the cessation of imports during the war and the high revenue duties on imports levied thereafter, a number of consumer goods industries, which had the necessary natural advantages like availability of raw materials and a large domestic market, which required smaller amounts of capital for a plant of economic size, which did not require a large number of technical personnel and which did not involve a long time lag between the floatation of an enterprise and production of marketable goods, have been established in the country (*e.g.*, cotton textiles, sugar, paper, matches, pharmaceuticals, soap and vegetable ghee, leather goods, rubber goods, *etc.*) These industries have not been entirely new. Some units had been in operation for a long time.

The large scale consumer goods industries which might hereafter be established would for the most part be entirely new to the country (*e.g.* rayon, plastics, *etc.*) and in building them up a certain amount of pioneering would be necessary.

To a large extent the future programme of industrial development would be in the direction of establishing a number of basic industries and capital goods industries. Besides being new, these industries would require huge amounts of capital and a larger number of highly specialized technical personnel. They would also involve a long interval of time between the stage of prospecting and the stage of actual production. Since the products of these industries enter into the cost of other industries, the extent to which they should be developed with the help of a fiscal policy and the form in which that help should be given raise important long term issues.

The division of the country has reduced the size of the secured market and cut off at least two very important industries of the Indian Union from the main sources of their raw materials, *viz.* raw jute and cotton.

Question No. 4.—What are the basic improvements in our agriculture and mining that you would consider urgently necessary as a support for any policy of intensified industrialisation?

1.—Agriculture.

An increase in foodgrains production adequate to meet the requirements of the country would be the first necessity. At the present level of population and the prevailing standard of nutrition, the deficit has been estimated to be round about 3 million tons. If this deficit is wiped out by means of an increase in indigenous supplies, the pressure on India's balance of payments would be reduced and it would be possible to import capital goods, essential raw materials and technical skill on a larger scale.

An increase in the production of agricultural raw materials like cotton, jute and sugar cane of the requisite quality is also called for. It is not, however, desirable to increase the production of raw jute and cotton with a view to making the Indian Union wholly independent of the supplies from Pakistan. For one thing, it would come in the way of India becoming self-sufficient in foodgrains, the total acreage available for cultivation being limited, and for another, especially in respect of jute, it would lead to over-production in the world as a whole, with disastrous consequences both for the Indian Union and Pakistan. Improvement in the quality of agricultural raw materials is essential from the point of view of reducing industrial costs.

Finally, a planned development of forests has to be undertaken. Raw materials of a number of industries, like paper, furniture, matches, plywood, etc., are derived from forests. But they do not exist on an abundant scale in the country, no attention having been paid to a systematic and planned development of forests. On the contrary, during the war, forests have been indiscriminately cut down. Indirectly, afforestation would help in the preservation of soil and improvement of water supply.

2.—Mining

As minerals form the most important base for building the superstructure of modern industry and as their total available supplies within a country depend entirely on Nature, the mineral wealth of India will have to receive far more attention than has been paid to it till now. The Government will have to lay down a definite policy, dealing at least with three aspects:

(1) A thorough prospecting of the mineral resources of the country;

(2) Their scientific extraction and economic utilization; and

(3) Their export to foreign countries.

Although the Geological Survey of India has been in existence since 1851, large parts of the country have not yet been prospected and no clear idea about the existence or otherwise of the various minerals, considered essential for the development of a well-balanced industry, is available. On the basis of known information. India is reported to be deficient in a number of non-ferrous metals like tin, mercury, bismuth, lead, zinc, copper, silver, nickel, tungsten, molybdenum, etc. A complete survey must be made to ascertain if India has forever to depend on outside sources for these minerals or whether they can be obtained from her own resources and if so, in what quantities. During the last few years the strength of the Geological Survey of India has been considerably increased but in view of the urgency of completing the geological mapping of the country as quickly as possible, it is doubtful whether the strength is yet adequate.

It is a notorious fact that the methods used in extracting important minerals like coal, mica, manganese, *etc.*, are in a large number of cases, very primitive and wasteful. "The haphazard mining of the ore bodies with an eye for immediate gains leading to the rapid depletion and waste of the useful portions of the deposits" has been mentioned by the Industrial Panel on Non-Ferrous Metal Industries as one of the distressing features of our mining industry, which needs to be removed if the mineral wealth of the country is to be properly developed and utilized for purposes where its economic value would be the greatest. The Indian Coalfields Committee and the Mica Enquiry Committee have reached the same conclusion. A well-planned measure of government control, which would make for the introduction of scientific methods of production, avoidance of waste and regulation of marketing, needs to be devised to develop our resources and to rationalise their use.

The question which needs immediate attention is, however, the preservation of our very limited supply of good coking coal. Of the workable reserves of 20,000 million tons of coal, only 700 to 750 million tons are of good coking coal and it is estimated that at the present rate of consumption they will be exhausted in about 65 years. The Indian Coalfields Committee has, therefore, suggested that its use should be restricted only to iron and steel works and coke ovens and that its use by the railways and other industries and its export should be prohibited. These and other recommendations of the Coalfields Committee for the conservation of our coal reserves, deserve to be implemented without delay.

At present there is no restriction whatsoever on the export of India's mineral products like manganese, mica, bauxite, ilmenite, etc. Some sort of restriction on exports is, however, desirable with a view to conserving for our own use valuable minerals like ilmenite and preventing the indiscriminate exploitation of others which, although available in adequate supplies, must be carefully utilised because they are wasting assets. Stringent regulation for the grading of the minerals is also necessary for obtaining a good price for the quantities that are exported abroad.

Question No. 5.—What are the main directions in which our industrial development has progressed since the Indian Fiscal Commission reported in 1922? Please give your appreciation of the same.

The principal industries which received protection were iron and steel, cotton textile, sugar, paper and matches. They have recorded significant expansion, as the following production figures would show:

	Steel ingots ('000 tons)	Cotton goods (million yards)	Sugar ('000 tons)	Matches (lakh gross boxes)	Paper ('000 tons)
1922-23	131	1,725	24	8	24
1939-40	1,071	4,013	1,242	220	70
1946	1,243	4,023	901	228	96

The imports of these commodities have been reduced to insignificant volume, suggesting thereby that when the war broke out Indian production had almost reached a level of self-sufficiency in relation to the effective demand.

A number of other industries like electric power, cement, engineering, heavy chemicals, soap, vegetable ghee, glass, etc., also came into existence during the period, and some of them are now in a position to meet all the requirements of the country at the current level of demand.

As a result of the growth of protected and unprotected industries, the aggregate factory employment showed an increase of 9 lakhs.

All these, excepting iron and steel, heavy chemicals and cement, were, however, consumer goods industries, for which there was a large domestic market and for the development of which not much preliminary investigation and planning were required. For the most part, the development consisted in the duplication of plants operating in some parts of the country.

Question No. 6.—To what extent do you think our industrial development still falls short of our essential requirements? Would you list our main deficiencies under the following heads:

(a) Lines of manufacture which you consider essential;

(b) Volume of production;

(c) *Overhead and operative costs;*

(d) *Quality of management;*

(e) *Supply of capital;*

(f) *Availability of raw material, fuel and power;*

(g) *Availiability of high grade technical ability;*

(h) *Supply of skilled and unskilled labour;*

(i) *Efficiency of labour.*

Only items (a), (e), (f), (g) and (i) are discussed below.

(a) *Lines of manufacture which may be considered essential.*—The second world war clearly showed the deplorable extent to which India is dependent on other countries for essential raw materials, capital goods and products of secondary industries. Because of the lack of industries producing these goods, a splendid opportunity for building up a varied industrial structure was lost. In the post-war period, our inability to replace and repair worn out machinery has adversely affected the productive capacity of the existing industries. Our future needs for essential manufactures have been fully dealt with in the reports of the Industrial Panels and in the report of the Advisory Planning Board.

(e) *Supply of capital.*—The supply of capital is the result of several factors such as the national income and its distribution, the cost of living, the rate of savings, etc. Owing to the steep rate of progression of the income tax and the super tax on the higher classes of income, the merger and integration of the Indian States, the annihilation of the middle class through high cost of living, and the diversion of an increasing share of the income to the lower income groups, the volume of savings in recent years has severely contracted. For want of a firm economic policy, the savings that are being made are not coming to the investment market.

Even if indigenous savings were maximised, they would, however, be utterly inadequate to meet the requirements of India's development plans which have been estimated to cost between Rs. 15,000 to 30,000 crores for ten years. The optimistic view regarding the capital resources of India which has been taken by the National Planning Committee and the Advisory Planning Board has no basis in facts. A substantial volume of foreign capital would have, therefore, to be imported.

(f) *Availability of fuel and power.*—As most of India's coal is concentrated in Bihar, it becomes very costly to use it over long distances from the source of supply, the transport costs being heavy. Generation of hydro-electric energy, where possible, is, therefore, one of the foremost requisites of India's industrial development. The production of hydro-electric energy has rapidly increased during the inter-war period but it is still not adequate even to meet the current demand. At industrial centres like Bombay, shortage of electric power has become a serious bottleneck.

(g) *Availability of high grade technical ability.*—In respect of technical ability of a specialized character, India has to depend on foreign countries to a very large extent. In fact, shortage of technical personnel is a more serious obstacle in the development of basic industries in the country than the shortage of capital. The heavy chemicals industry, the locomotive industry and the radio industry in which Tatas are directly interested have clearly demonstrated this fact.

(i) *Efficiency of labour.*—It is not possible to establish with the help of statistics whether and how far the efficiency of labour has improved. One

thing can, however, be definitely maintained and it is that in its efforts to secure a better deal from the employers and improve its standard of living, labour (guided by its leaders) has lost sight of the intimate relation between wages and productivity. That ultimately labour cannot earn more than the value of its contribution to the final product is not at all realized. While fighting for the right to have a minimum wage, labour is extremely reluctant to entertain any idea about the fixation of a minimum work-load. It is also opposed to any scheme of rationalization which employers might seek to introduce and from which labour itself, along with the employer and the consumer, would ultimately stand to benefit. This one-sided and obstinate attitude on the part of labour has, no doubt, held up the progress of a number of Indian industries in recent years.

Question No. 7.—(a) Please give a broad analysis of the present position of small-scale and cottage industries in the economy of this country.

(b) What should be the relations between—

(i) small-scale and cottage industries and agriculture; and

(ii) small-scale and cottage industries and large-scale industries?

Question No. 8.—Do you think small-scale and cottage industries have a significant role to play in the economic development of our country (a) under present circumstances and (b) in the long run?

Since the principal object of a rapid industrialization of India is the diversion of a large section of the population from agriculture to industry, cottage and small-scale industries ought to have a prominent place in the programme of industrial development. These industries are scattered all over the country and provide employment to a large number of people at a relatively small volume of investment, thereby meeting the requirements of regional balance and economic decentralization. As long as the need for expanding the volume of employment in industrial occupations persists, the industrial policies to be pursued by the Government must, therefore, be based on a clear visualisation of the functions and scope of units organized on a small-scale in the general industrial scene and should aim at securing the maximum development of small-scale industries in their proper sphere. It follows that measures of fiscal policy must support industrial policy in this regard.

The term "cottage industries" generally applies to those industries and crafts which are organised on a family basis and are subsidiary to agriculture. They do not require a high degree of technological skill or intricate machinery and ordinarily they make use of locally available materials. The market for their products, to the extent to which they are not consumed by the family itself, would extend to a district at the most.

Small-scale industries differ from large-scale industries in the number of people employed and in the degree of mechanisation. It is possible for a suitably framed industrial policy to enable the small-scale industries to undertake, on a sound economic basis, either independent lines of manufacture or processes which are complementary to those of large-scale industries.

There is a sufficiently wide range of articles in general demand which do not admit of standardisation to any great extent and which can, therefore, be manufactured on a small-scale. Further, small-scale industries can both feed and be fed by large-scale industries. These latter may supply them factory-processed raw materials and/or purchase from them semi-finished goods. It is also possible to utilise small industries for the manufacture of some of the component parts of articles such as clocks and watches, bicycles,

mechanical toys, *etc.*, leaving it to the large-scale establishments to manufacture other more complicated parts and to assemble the components.

The extent of small-scale industry even in the industrially advanced countries is not always fully realised in India. In 1930, about 50 per cent. of the workers in manufacturing industries in Japan were employed in units having less than 5 workers each. In the textile industry there, 94 per cent. of the workers were employed in units employing less than 10 persons. In the U.K. according to an official estimate, units employing between 5 and 30 persons accounted for 29 per cent. of the employment and 19 per cent. of the output. Cottage and small-scale industries also occupy a considerable field in other European countries and in America.

Question No. 14.—*The Fiscal Commission appointed by the Government of India in* 1921 *recommended "that discrimination should be exercised in the selection of industries for protection, and in the degree of protection afforded, so as to make the inevitable burden on the community as light as is consistent with the due development of industries". On the strength of this basic principle the Commission decided that an industry seeking protection or assistance should satisfy the three conditions enumerated in paragraph* 1 *of the note. Besides tariff protection the Commission recommended also certain non-fiscal measures. Are you satisfied that the policy recommended by the Commission was fully implemented between* 1923-1939? *If not, please enumerate the main deviation from the policy.*

The government probably misinterpreted the cautious tone of the majority recommendations of the Commission and, in implementing these recommendations, adopted a conservative approach. The results actually achieved naturally fell short of the expectations. The policy of Discriminating Protection has wrongly been blamed for the comparatively small progress of industrialization which the country has achieved. It is the government who, having put a very narrow interpretation on the policy recommended by the Commission, is primarily responsible for limiting the progress.

They put a very rigid interpretation on the three conditions prescribed by the Commission to make an industry eligible for protection. For instance, the first condition was: "The industry must be one possessing natural advantages, *such as* an abundant supply of raw materials, cheap power, a sufficient supply of labour *or* a large home market". The advantges mentioned were merely illustrative as the words "such as" and "or" clearly suggest. But the government insisted on the industry's possessing *all* these advantages before becoming eligible for protection. Many of the industries failed to make out a *prima facie* case for protection and their applications never came before the Tariff Board for investigation.

The government even turned down the Tariff Board's recommendation of protection to the glass industry on the ground that soda ash was not produced in the country, although the Board was of the opinion that the other advantages which the industry possessed were more than sufficient to compensate it for the absence of soda ash.

While granting protection to the steel industry and the cotton textile industry, they made a clever distinction between imports competing with Indian products and imports not so competing and imposed only revenue duties on the latter. In effect this was Imperial Preference by the back door, because non-competing products in both the cases were of British origin.

Question No. 15.—*Do you find any defects in the working of this policy? If so, please give details with suitable examples.*

Discriminating Protection was intended to enable an industry to develop under conditions of normal trade. In fact, however, the inter-war period was characterised by abnormal conditions in international trade: exchange depreciation, dumping, closed world markets, monopolies, etc. Their existence foiled the expectations of the Tariff Board and the quantum of protection was, in many cases, negatived by them. The developmental effect of the tariff recommended by the Board was, therefore, cancelled. This was an important defect in the working of the policy.

The procedure for applying for protection was difficult and dilatory in as much as whether an industry had a *prima facie* case for protection or not was first decided by the government, and in arriving at this decision they applied the criteria laid down by the Commission in a very critical manner and thus practically assumed the functions of the Tariff Board. This naturally entailed a considerable loss of time before the case was referred to the Board for investigation.

There were also inordinate delays in completing investigations and taking final decisions on the applications for protection. In the case of the match industry, for instance, two years elapsed between the reference and final action. Similar delays occurred in the case of the cotton textile, sugar and salt industries. In the case of the woollen industry, the decision (*not* to grant protection) was taken two years after the reference. In many cases the delay was due to the prolonged examination to which the government subjected the findings of the Tariff Board.

The attitude of the government appears to have been generally unsympathetic to Indian industry and betrayed a solicitude for British interests. The government agreed with the recommendations of the Tariff Board where there was not much clash between British and Indian industry—cotton, sugar, matches—or where important units of Indian industry were owned by the British as in the case of paper. In the case of cement and heavy chemicals, the imports were mainly from the U.K. and protection to these industries was denied. In the latter group, magnesium chloride was given protection as the country affected was Germany and not the U.K.

Question No. 16.—Do you agree with the specific conditions laid down by the Commission that normally protection should be accorded to an industry only if the conditions referred to in Q. 14 are satisfied?

On economic grounds protection can be justified only as a temporary measure to facilitate the growth of new industries up to a stage where they would be able to meet competition from foreign industries on their own. It automatically follows that the industries to be protected must have important natural advantages. Otherwise they would never be able to stand up against established foreign industries and the burden on the consumer or the tax payer would be permanent.

The specific conditions laid down by the Fiscal Commission reflected a good analysis of the problem and in so far as they indicated the lines on which the Tariff Board should investigate the position of each industry, they cannot be found fault with. It would, however, be undesirable to prescribe a rule that each of the specific conditions must be fulfilled to a uniform degree to enable an industry to qualify for protection. It will be enough if the Tariff Board satisfies itself, in any case, that the natural advantages enjoyed by the industry are, in the aggregate, such as would enable it to operate without protection after a reasonable period. In doing this, it would be open to the Tariff Board to assign, in different cases, different measures of importance to the relevant factors. For instance, even if an industry cannot claim an "abundant supply

of raw materials, its demand for protection may very frequently be justified on account of the advantages enjoyed by it in other respects. The history of the development of cotton mill industry in the U.K. and Japan and rubber goods industry in the U.S.A. conclusively proves that it is possible to develop an industry even when the principal raw material is not locally available but could be obtained economically from external sources.

Question No. 19.—The changes set out in paragraph 4 of the note were made in the principle of discriminating protection in 1945 when the interim Tariff Board was established. What are your views on these deviations from the original policy as laid down in the Indian Fiscal Commission's Report?

The Tariff Board in 1945 was to satisfy itself before recommending protection on the following three counts:

(a) that the industry is established and conducted on sound lines; and

(b) that having regard to the natural and economic advantages enjoyed by the industry and its actual or probable cost, it is likely within a reasonable time to develop sufficiently to be able to dispense with protection; or

(c) that it is an industry to which it is desirable, in the national interest, to grant protection and the probable cost of such protection to the community is not excessive.

These conditions are much more liberal than those laid down by the Fiscal Commission and leave a considerable amount of latitude to the Tariff Board to introduce suitable variations in the criteria for assessing the merits of each individual industry asking for protection. At the same time the basic requirement that the industry must have enough natural advantages to hold out the prospect of its being able to attain a competitive position within a reasonable period of time is not given up. The deviations in the original policy have, therefore, been made along right lines and are desirable.

The revised principles also provide for the development of nationally important industries even at some cost. The Fiscal Commission in 1922 had failed to make this provision.

Question No. 31.—What in your assessment is the relative importance of the main changes in the pattern of our foreign trade which have taken place in the periods—

(*a*) 1939—45;

(*b*) 1946—49?

(*a*) 1939—45

The outbreak of the war and the consequent cessation of trade with enemy countries and reduced imports from the Allies offered a great opportunity for industrialisation, particularly for the establishment of new industries. Partly owing to the difficulties of importing capital goods and technical personnel but mainly on account of the deliberately unhelpful attitude of the British Government, this opportunity was, however, largely missed. There was, nonetheless, a substantial increase in the production of established industries. This was reflected in the composition of export trade—an increase in the proportion of manufactures and a decline in that of raw materials:

Composition of Export Trade

(Private Merchandise)

	1938-39		1944-45	
	Rs. lacs	Per cent	Rs. lacs	Per cent
Food	39,43	23·3	49,06	21·6
Raw materials.	76,28	45·1	58,19	25·6
Manufactures	50,72	30·0	106,27	46·8
Total, incl. misc.	169,22	100·0	226,97	100·0

Imports of raw cotton increased from Rs. 9 crores in 1938-39 to Rs. 24 crores in 1944-45 while those of cotton manufactures declined from Rs. 11 crores to less than Rs. 2 crores. The exports of cotton manufactures, on the other hand, increased from Rs. 8 crores to Rs. 38 crores.

(*b*) 1946—49

After the end of the war, with the gradual relaxation of controls, India's foreign trade appeared to be reverting to its prewar pattern—a high proportion of manufactures in import trade and larger exports of raw materials. The partition of the country, however, changed the position, leading to a decline in both the value of raw materials exported and their share in the total exports. Consequently, the relative position of exports of manufactures tended to improve once again.

Composition of Export Trade
(Private Merchandise)

	1945-46		1948-49*	
	Rs. lacs	Per cent	Rs. lacs.	Per cent
Food	58,60	22·1	87,56	20·7
Raw materials	84,99	32·0	98,64	23·3
Manufactures	115,99	43·7	234,80	55·5
Total, incl. misc.	265,47	100·0	422,82	100·0

* Indian Dominion

Question No. 36.—What, in your judgement, should be the objectives of tariff policy in the short period?

It is desirable to segregate those short term problems which are common to many countries of the world, and which in India are likely to occur on a number of occasions in future, from those peculiar problems with which India is faced at the moment, but which are not ordinarily expected to recur hereafter. The latter may be considered first.

(*i*) *India's peculiar problems in the near future*

The present economic situation in India has two important facets. First, the position of foreign exchange is extremely difficult and, secondly, there are urgent demands for foreign exchange resources from non-industrial spheres of economy, such as agriculture and defence. Generally speaking, imports of industrial goods which compete with indigenous products are not likely to be on a substantial scale under these circumstances and protection as a stimulant of industrial development has only a secondary role in relation to direct controls over import trade and foreign exchange.

Industries established as a result of Government's encouragement during the war might, however, require special consideration. In selected cases, it may be necessary to provide assistance to the manufacturers who have made heavy investment relying on the promise of Government support, but new

enterprises in the fields covered by the war time industries should be encouraged only if they are considered suitable for development on strict economic considerations.

(ii) "Normal" short term problems

India in common with other countries, is likely to come up against a number of short term problems. Although such problems are by their nature temporary as long as they last, long term development of industries is handicapped and hence it is necessary to devise suitable methods to overcome them. Two of these problems are briefly discussed below:

(*i*) *Dumping.*—Dumping policies may be pursued by industries in one or more foreign countries which have large accumulated stocks in world markets and which are not in a position to reduce their production easily at short notice. As dumping of accumulated stocks is bound to last only for a limited period, short term fiscal measures would be adequate to protect the interests of Indian Industries. A measure similar to the defunct Safeguarding of Industries Act would serve the purpose. The rate of tariff, which may have to be frequently revised, should be fixed separately for individual commodities. Further, Government should consider how far it can take advantage of the abnormally low world prices to build up stocks of goods which may be useful at a later stage.

(*ii*) *Currency depreciation.*—The Bretton Woods Agreement has reduced the danger of a sudden and substantial depreciation of the value of the currency of any one or more of foreign countries. But India must be ready to take action to protect her own interests if a situation, which the International Monetary Fund seeks to avert, arises. The most effective way of doing this would be to introduce special "extra" tariffs against the principal imports from the country which depreciates its currency. The extra tariff, which should advisably be *ad valorem*, will have to be revised very quickly from time to time with the object of maintaining the rupee price of imported merchandise unchanged.

Question No. 37.—The minority report of the Indian Fiscal Commission 1921-22 *expressed the view "that there should be an unqualified pronouncement that the fiscal policy best suited for India is protection". Do you agree with this?*

In the circumstances of today, a pronouncement of the kind suggested does not appear to be necessary and if made, might introduce an unwarranted bias in the fiscal policy.

At the present time, active support by government, through all means, to the rapid development of industries is an accepted principle. Under the regime of *laissez faire*, a protective tariff was almost the only method by which a government was ready to extend assistance to industries. Since government is now anxious to do all it can for economic development and since fiscal policy is only one, and by no means the most important, of the fields in which constructive action can be taken, it is no longer necessary to impress on government that fiscal policy must have the paramount aim of furthering industrial growth.

On the other hand, such an "unqualified pronouncement" would be wrongly biased. It would suggest that only good can ensue from a protective policy and that if any burden on the consumer or loss to the community is involved, it will always be negligible. This is, of course, not true. A pronouncement of this kind would encourage all sorts of unhealthy ventures into industry which would not be fit for survival on economic grounds.

For these reasons an "unqualified pronouncement, etc." is unacceptable.

Any pronouncement on the subject should make it clear that every measure of protection carries with it a burden in the shape of increased costs and reduced world trade, that frequently a high tariff impedes the achievement, by domestic producers, of world standards of efficiency and quality; and that the protected industries owe it to the community not merely to expand production but to expand it to a point which justifies the cost of the protective tariff over the period during which it operates.

Question No. 38.—If so, what principles and conditions would you lay down for regulating the grant of protection or assistance?

The following general principles are suggested:—

(1) All the industries which could be run profitably after a reasonable period of State assistance should be eligible to receive protection. That is to say: Protection should counter-act the initial handicaps which industries in general but particularly new industries are bound to experience in competition with the well-established foreign industries.

(2) Protection must not aim at complete self-sufficiency. Its function will be deemed to have been fulfilled when, having operated for a reasonable period of time, it familiarizes Indian enterprise with a new branch of manufacture.

(3) Generally, at any point of time, the scope of protection should be determined by the capacity of the economy to bear the aggregate burden caused by it after making allowance for the advantages, such as increased employment, which it brings.

(4) Grant of protection to the different industries which lay claim to it should fit in with the requirements of a Master Plan, covering the whole sector of industry, protected as well as unprotected.

These principles are discussed at some length in the succeeding paragraphs.

(1) *Outer limit of protection: ultimate profitability of enterprise.*—The conditions of "Natural advantage" prescribed by the Fiscal Commission of 1921-22 were unduly restrictive. Rather than lay down hard and fast rules for determining whether an industry is qualified to receive protection or not, it would be preferable to indicate those considerations by which we may know which spheres of productive activity need *not* or ought *not* to receive protection. We may thus determine the outer limits of a policy of protection. This approach to the problem will ensure that the granting of protection is as liberal and extensive as it can be without positively harming the national interest; it will not reduce the job of the Tariff Board to that of just mechanically testing the qualifications of an applicant-industry in terms of a rigid formula; but will lay down, for the benefit of the Tariff Board, the broad principles, in the light of which an organic, though flexible, policy may be evolved.

Barring special cases, which have to be treated separately, the primary objective of a policy of protection must be to counter-act the handicaps which India has to face as a result of her entering the field of large scale manufacturing industry much later than the countries of the West. The advantages enjoyed by a nation which enters the field earlier than others are cumulative in the sense that they tend to increase as fresh branches of manufacture are undertaken and new processes introduced in the established industries. Without some artificial aid, India can never hope to take her rightful place in the industrial field along with the advanced nations. To remove this handicap must, therefore, be the basic objective of a protective tariff for India. It follows that all those branches of industry which, except for this handicap, would have been

established in India through the working of normal economic forces are eligible to receive some artificial stimulus. The success of the protective policy will be measured by the extent to which new industries are developed in India without ultimately sacrificing the advantages of international division of labour and industrial specialization. This means that, broadly speaking, all those industries which could be run profitably after a reasonable period of State assistance are within the scope of a policy of protection. When the outer limit of protection is defined in this manner, there would be no risk of "over-industrialization" resulting from a protective policy.

(2) *Self-sufficiency, not an aim of protection.*—The normal aim of protection must not be the achievement of complete self-sufficiency in any particular industry. In so far as India possessed economic advantages over other countries in any branch of production, self-sufficiency may be reached automatically and, after a time, the industry may even start exporting a portion of its output; but while the industry is being nurtured, the object of State aid must never be self-sufficiency. The responsibility of a protective tariff is ended, not when the industry is able to satisfy 100 per cent. of the domestic market, but when India is reasonably well introduced to that particular industry. It is not possible to lay down hard and fast rules, but no industry which has been in existence for, say, 25 years and satisfies a sizable portion of the domestic demand should come as a claimant for protection. Such an industry should normally be able to expand on its own. When a protected industry has so expanded as to serve round about 50 per cent. of India's current requirements, a beginning should be made with the reduction of the tariff with a view to removing all protection gradually.

(3) *Cumulative effects of protection to be borne in mind.*—In granting protection to individual industries, the aggregate effect on the national economy of all measures of protection should be constantly taken note of by the Tariff Board. The cumulative effect of successive extensions of protection would be to steadily inflate the cost-structure in India. Care must, therefore, be taken that the aggregate burden of protective policy on the consumer, the unprotected industries and the public exchequer is not, at any stage, out of all proportion to the benefits it brings, in the shape of increased employment, wider market for agricultural goods, *etc.*, so as to unduly strain the whole economy.

(4) *Priorities in granting protection.*—It is the responsibility of the Tariff Board not merely to pick and choose those industries which can ultimately be conducted at a profit but also to determine the right priority for granting protection to the industries claiming it. It follows that the policies pursued by the Tariff Board must be in harmony with a Master Plan which takes into account other measures of State assistance besides the tariff and the development of other industries besides the protected industries in the different stages of the plan. If such harmony is lacking, there is a danger of the policy of protection making excessive demands on the real resources of the country for investment.

Question No. 39.—Would you in the application of the formula or principles, if any, or in the administration of the policy in general, like special consideration or priority to be given to any particular classes of industry? If so, please name the classes.

The question of protection being given to one industry prior to another is really bound up with the general question of priorities in industrial development. Besides fiscal aspects, many other considerations, such as the resources available at different stages of development, the urgency of demand for different categories of goods, *etc.*, will have to be taken into account. In the case of defence industries, economic considerations alone cannot determine the policy. Never-

theless, looking at the problem from the angle of fiscal policy alone, the following order of priorities and the special considerations applicable to each class of industries, other than defence industries, may generally be suggested:

1. *Consumer goods industries not involving intricate processes.*—Those industries which will not require substantial protection and can be developed in a short period owing to the process of manufacture being comparatively easy and not altogether foreign to India, should receive top priority. This will make it possible to secure an immediate expansion of industry without imposing a heavy burden. The industries coming under this category will be, in the main, consumer goods industries not requiring heavy capital investment.

Some instances are.—Paper; Glass; Paints and Varnishes; Leather Goods; Cigarettes and Cigars; Food industries; Rubber Goods; Pens and Pencils; *etc.*

2. *Key industries catering to the existing needs of the country.*—Key industries being defined as industries which turn out goods vital for the development of other industries, the second priority should naturally be given to the industries essential for sustaining the existing industries and the industries which might be developed hereafter. These industries will have a ready market for their products in India. While they are being developed, however, it is necessary to ensure that protection does not keep out foreign products to an extent which reduces the available supplies below India's requirements. Nor should the prices of imports be raised beyond the capacity of the consuming industries. Hence the tariff should not be the only means of stimulating the development of key industries and the possibility of other forms of state aid, including direct subsidies, should be carefully examined. The object of the tariff should be to stimulate enterprise.

Some instances of industries falling in this class.—Chemicals— major alkalies and acids: Steel; Prime Movers; Industrial, Agricultural and Construction Plant and Machinery; Machine Tools, *etc.*

3. *Other industries.*—It is to be expected that after the first two categories of industries come to be established on a firm footing as a result of state aid, the problem of fiscal policy will materially alter its complexion. It is difficult to foresee what measure of protection will be then required as an incentive for the establishment of new classes of industries. Probably, the need for artificial stimulus would be less than it is now. In any case, it will be of little use now to make recommendations to suit that stage of industrial development.

Question No. 41.—(*a*) *Please indicate your views on the various alternative methods of protection*, e.g.

(*i*) *protective import duty*;

(*ii*) *bounty or subsidy*;

(*iii*) *system of pool prices*, e.g., *the aluminium price pool which was in force till recently*;

(*iv*) *quantitative restriction of imports based on a guaranteed market for at least a percentage of domestic production (when such quantitative restrictions can be imposed without conflict with pre-existing agreements or commitments).*

(*b*) *Which of these methods should be the normal method?*

(*c*) *Would you like the appropriate method to be determined in each case on its merits? If so, what are the conditions you would like to bear in mind in selecting the method of protection?*

Up-to-now, Indian industries have received protection primarily through protective import duties. As the industries which India would like to develop hereafter and for which there is sufficient scope are the producer goods industries, the method of import duty might not prove so advantageous nor practicable in their case. Other methods would have to be carefully examined. Bounties and pool prices, the latter of which is really a combination of import duties and bounties, would have to be employed on a larger scale in preference to import duties. Quantitative restriction of imports is a very crude method which would invite retaliation and is repugnant to the character of the International Trade Organization. It should, therefore, be resorted to only in exceptional cases where other methods would not work.

As between the protective duty and the bounty, practical considerations suggest that the former should be regarded as the normal method. The protective duty does not involve any direct burden on the public finances. It does not require detailed and continuous examination of the working of the protected enterprises and, finally, it does not provide much scope for corruption. On the other hand, a great advantage of bounties is that they transfer the burden of protection from the consumer to the general tax-payer. They prevent an increase in the price of imported articles, which is an important consideration in the case of key industries. To the extent to which public finances can afford, it would, therefore, be advantageous to replace protective duties by bounties in the case of selected industries, provided an efficient machinery for administering the system can be created.

The system of bounties would be particularly suitable in the case of important key industries, since the assistance provided to such industries would not increase the cost of production of other industries dependent on them for essential materials and implements. Again, if protection is contemplated before an industry has made even a beginning in the country and if it is felt that not more than two or three productive units are likely to be set up as a result of protection, it would be advantageous to give them direct assistance in the form of subsidies in their formative period.

The system of pool prices as applied in the case of the Indian aluminium industry and the super phosphates industry might prove useful where wide disparities exist, not only between the prices of indigenous products and the prices of imported goods, but also between the costs of production in the different indigenous plants and where indigenous production forms a very small proportion of the total consumption. By this method it is ultimately the consumer of the products concerned who bears the burden of protection but the burden is much less than what he would be required to bear if protection were given only through import duty. Besides, a definite programme can be framed for reducing this burden and for improving the efficiency of the Indian plants strictly according to a time schedule.

The method of quantitative restriction, which must be used sparingly, should, whenever it is resorted to, be accompanied by a smaller rate of tariff than would otherwise be charged. The object of quantitative restriction must only be to enable new undertakings to quickly increase their production to their rated capacity in order to lower the cost of manufacture per unit of product. As soon as the scale of output approaches the capacity of the producers the quantitative restriction should be withdrawn and only a protective duty continued, if necessary.

Question No. 43.—(a) What place would you assign to export duties in the tariff system in the future?

(b) Would you advocate export control (by duties or otherwise) for the purpose of—

(i) safeguarding the domestic consumer against critical shortages;

(ii) conserving domestic supplies of raw materials for utilization by domestic industries?

Having regard to the need for developing the export trade to the maximum possible extent in order to earn adequate foreign exchange resources for India's developmental plans, it appears that export duties must play a very minor part in the tariff system. The legitimate functions which export duties, other than duties levied for purposes of revenue, may be allowed to discharge are three:

(i) Conservation of such mineral and forest resources as may be exhausted if indiscriminately exploited for purposes of export;

(ii) conservation of products and materials which are of strategic importance from the point of view of defence;

(iii) retaliation against a country which pursues a policy that discriminates against India.

Normally, export control for the purposes stated above would be desirable.

It should be observed that export duties as a means of lowering the domestic prices for the benefit of manufacturing industries in India would be improper in so far as in the foreign countries nc discrimination is made as between the home market and the world market.

Question No. 45.—Have you any comments on the method by which the Tariff Board at present fixes the quantum of protection (the method of comparing the fair selling price of the domestic product with the landed cost of the imported product)?

On the whole, the present practice of relating the quantum of protection to the difference between the fair selling price in India and the price of imports is quite fair. The calculation of these two prices is, however, beset with practical difficulties. The Tariff Board in pre-war times generally tackled the job on correct lines and no modification of procedure is necessary. But in future, if protection is to be extended to industries which have hardly made a beginning in India, the statistical data which the Tariff Board may go upon would be almost non-existent or at any rate, extremely scanty and decisions would have to be taken largely on the basis of hypothetical estimates. On the other hand, the responsibility for taking right decisions would be all the greater because, with the relaxation of the specific "conditions" of protection, the aggregate burden on the consumer is likely to disclose a sharp increase.

It may, therefore, be suggested that the personnel of the Tariff Board should include persons who have not merely a complete understanding of the policy to be pursued but also adequate experience of the establishment and running of industries. They will also need to have the requisite strength of character to resist pressures from whatever quarters they might emanate.

Adjustment of tariff to large fluctuations in either the import price or the fair selling price in India was beyond the scope of the pre-war Tariff Board. As a result, the Board attempted, so to speak, to look a little ahead and behind and framed recommendations which were designed to be suitable, not merely to the existing situation, but also to the situation that was likely to arise in the near future. This was very well as long as the Board's anticipations were borne out subsequently, but actually they often went wide of the mark and then a new enquiry had to be made.

In future, therefore, assuming that it is established on a permanent footing, the Tariff Board should be empowered to consider on its own initiative appropriate modifications in the quantum of protection when the premises on which it builds its original recommendations are substantially altered. The problem created by a sharp decline in the import price is not considered here because Question No. 46 bears specifically on it. Attention is confined only to an adjustment of the import duty to neutralize *substantial* variations in the domestic fair selling price (brought about by a general increase or decrease in wage rates, prices of raw materials, capital required *etc.*). This adjustment cannot be automatic since it is likely to have serious repercussions on the other sectors of economy largely outside the compass of fiscal policy. For instance, periodical revisions of the import tariff would seriously interfere with measures aimed at stabilising the general price level and regulating the flow of investment and upset the budgets. Although the Tariff Board should regard it as one of its normal duties to examine how far changes in the domestic cost of production ought to be represented by a change in the tariff, in arriving at its decision it must take into account the requirements of general economic policy. While examining applications for revision of the tariff, the Board should concern itself, not with any aspect of the industry's claim for substantive protection, but only with the specific point at issue.

Question No. 46.—Would you recommend variations in duties to meet variations in import costs?

In general, variations in duties for the stated object should be made.

The first reason is mainly of a negative character in-as-much as these variations would not produce any serious repercussions on the Indian economy in the same way in which variations in duties to meet variations in the domestic cost of production would. They would merely maintain the position of protected industries in relation to competing industries in the rest of the world. In the case of products of key importance, the effect of increasing the duty on the industries which consume such products must be carefully noted. Subject to these considerations, the implementation of the policy would depend on how large is the rise or fall in the costs of imports and how far such a change is likely to be permanent.

Whenever a basic change in the methods of production in foreign countries occurs which leads to a substantial fall in the price of imports, the authority which administers the scheme of protection in India will have to consider how far, in the changed circumstances, it is possible for India to develop the protected industry on a sound economic basis in the long run without placing a permanent burden on Indian consumers.

There are likely to arise several administrative difficulties in the scheme. For instance, it will have to be carefully seen whether a fall in prices is limited to only one of the countries from which India imports goods or extends to all such countries. The change in the price of the average shipment of imports will, therefore, have to be carefully worked out. In the fixation of the additional import duty, regard will have to be paid to the changes that may come about in the relative position of supplies from different countries.

Question No. 49.—Would you like a minimum or a maximum duration to be laid down for protective measures?

This question loses much of its force if provision is made for a periodical revision of the import duty under certain sets of conditions such as substantial variations in the domestic cost of production and substantial variations in the cost of imports. Nevertheless, it would be advantageous to prescribe a definite "period of protection" whenever a full enquiry is held. This period would be

both the minimum and the maximum period. It would be the minimum period in the sense that during this period the amount of duty should not be lowered except when there is a sharp increase in the landed cost of imports. It would also be the maximum period in the sense that, after the end of such period, protection should automatically cease except if a case is made, to the satisfaction of the Tariff Board, for its continuance. The period would, therefore, be one in which the Tariff Board, under given conditions, expects the protected industry to attain a certain standard of efficiency and size of operations. It should be the responsibility of the industry to prove in any case that the assumptions of the Tariff Board regarding the conditions under which the industry was expected to work did not prevail.

Question No. 66.—*(a) Do you consider that industries receiving protection or assistance from Government owe a special obligation to the rest of the community as regards the manner in which they render their service?*

(b) If so, please state your views as to these obligations under the following heads:

(i) price policy and price structure;

(ii) wages and conditions of labour;

(iii) adoption of technological improvements;

(iv) initiation of research in the technique of production and distribution;

(v) training of apprentices and Government scholars and stipendiaries;

(vi) control over the distribution of the products of protected industries in certain contingencies.

(a) The only obligation which a protected industry ought to shoulder is the obligation to quickly expand the scale of production in such a way that protection may be dispensed with in the shortest possible period. This will require wise planning, efficient management and a steady ploughing back of profits for expanding productive facilities. Such an obligation cannot, however, be enforced by law. No agency of the government, including tariff-making machinery, can do anything in the matter except create conditions in which the industrialist himself is inclined to make the best possible use of his resources.

In respect of the broad obligation of avoiding anti-social practices, it is difficult to see how protected industries can be isolated from unprotected industries. If a distinction between these two classes of industries can be made at all, it will rest on two assumptions. First, because some industries have received protection, the State is either more interested in their progress than in the progress of other industries or wishes to apply the necessary regulations to the protected industries in the first instance, with the idea of extending them to all other industries in due course. Secondly, because the tariff raises a barrier against foreign competition, it is more necessary in the case of protected industries to be watchful over anti-social practices, than in the case of other industries.

It will we seen that on these assumptions, the distinction between a protected and an unprotected industry might permit a time-lag in the matter of introducing State regulation and/or a difference in the strictness with which regulations are enforced. Except in these two ways, the treatment of protected industries must not differ from that of unprotected industries.

(b) (i) *Price policy and price structure;*

(iii) *Adoption of technological improvements; and*

(vi) *Control over the distribution of the products of protected industries in certain contingencies.*

In these three matters, laws to suppress monopolistic tendencies and restrictive practices will have to be framed by the Government. No distinction need be made between protected and unprotected industries but the administrative machinery will have to be particularly watchful in the case of the former.

(ii) *Wages and conditions of labour.*

No distinction can or ought to be made between protected and unprotected industries.

(iv) *Initiation of research in the technique of production and distribution*:

It will be difficult to compel any industry to undertake research work. If compulsion is introduced, there is a danger that large sums will be wasted, under the guise of research expenditure, without producing much benefit either to the firm which defrays it or to the industry concerned. On the other hand, government may undertake research on its own, and in selecting types of research may give preference to protected industries if it is considered necessary to give them such aid in addition to that provided by the tariff.

(v) *Training of apprentices and government scholars and stipendiaries.*

This is a matter in which useful action may be taken by separating the protected industries from others. The object of apprentice-training schemes is to accelerate the spreading of operative skill and technical education. This will make it possible to quickly expand production. Since this is an important consideration in the case of protected industries, apprentice training schemes may be introduced in such industries either before or to the exclusion of other industries. Care must, however, be taken that the cost of these schemes is not so heavy as to defeat the purpose for which aid, in the form of protection, was granted.

Question No. 69.—(*a*) *Are you satisfied with the present arrangements for the standardization and control of the quality of industrial products? In particular do you think that any special arrangements for the control of quality of the products of protected and assisted industries are necessary?*

(*b*) *If so, would you impose this duty on the protected or assisted industries through such special organizations as they may set up with the approval of Government or would you set up any special institutions outside these industries?*

(*c*) *What in your view should be the structure and functions of such organizations or institutions? Should they be professionally expert bodies or be composed of representatives of the different interests concerned?*

(a) Up to now, very little attention has been paid by Indian industries to produce goods of standardized quality and specifications. In fact, till recently no attempt was made even to evolve standards and specifications suitable to the diversity of raw materials and manufacturing processes employed in the country. The Indian Standards Institution established in 1947 has, however, made a considerable progress in this direction. Standards and specifications have been established for a number of industrial products and recommendations for enacting legislation with a view to ensuring the quality of Indian manufactures have been submitted to government. To safeguard the future of Indian industries, government should push through this legislation without much delay.

Standardization and control of the quality of Indian manufactures are essential for a variety of reasons: (i) Without standardization and quality control,

it would not be possible to bring about a closer integration of the different branches of industry. Particularly, if development of small-scale industries is to be encouraged and adequate scope is to be provided for them, special care will have to be taken to ensure that industrial products come up to specific standards. (ii) Standardization and quality control are also essential from the point of view of minimizing the waste of labour and raw materials and reducing costs. (iii) One of the serious handicaps restricting the development of India's export trade is the inability of the country to supply goods of standard quality. Sales on the basis of samples become very difficult in the absence of a guarantee that the actual goods supplied would conform to the samples approved. If products are standardized, this difficulty will disappear, the credit of the Indian exporters in foreign markets will improve, and the volume of trade will increase.

(b) The Indian Standards Institution which has been registered under the Registration of Societies Act and whose membership is open to all the interests concerned should, in course of time, be able to evolve suitable standards for all Indian manufactures. It must be made obligatory on all industries, protected as well as unprotected, to conform to these standards and some sort of legislation is necessary for this purpose in the present stage of industrial development. If, however, for some reason or the other this is not considered feasible, it should at least be made obligatory on the part of the protected industries to make their products conform to specific standards and quality. Far from imposing any material burden on the protected industry this would be in the interest of the industry itself. If the protected industries wish to establish independent organizations to study their special problems, they should be at liberty to do so but the establishment of standards should be done only through the Indian Standards Institution.

(c) We are generally in agreement with the organization and functions of the Indian Standards Institution which has already come into existence.

Question No. 77.—Whatever may be structure of the planning and co-ordinating machinery that you may favour, do you agree that a specialised organisation for tariff purposes is essential to the implementation of a scientific tariff policy?

Question No. 78.—If so, would you agree with the recommendations of the Indian Fiscal Commission of 1921-22 that the Tariff Board or the Tariff Commission should be—

(i) a permanent body of high standing,

(ii) consisting of members who are of high ability, integrity and impartiality—preferably with a knowledge of economics and a practical acquaintance with business affairs?

(paras. 302, 309—Chapter XVII).

Have you got any other views on the status and structure of an appropriate Tariff Board or Commission?

I. *Organization and composition of the Tariff Board:*

If the fiscal policy which has been outlined in reply to Q. 38 is to be effectively carried out and if the burden on the consumer is to be reduced to the minimum, scientific investigation of the industries asking for protection and close supervision over those which might receive it is essential. These functions would be satisfactorily performed if entrusted to an expert and independent Tariff Board.

The Tariff Board constituted for this purpose must be a permanent body as recommended by the Fiscal Commission and not *ad hoc* committees of the type which were actually appointed. To cope with the increasing number of enquiries, which must be expected to come up under a liberal policy, expeditiously and thoroughly and to attend to the multifarious other duties involved in the function of supervision, the personnel of the Board will have to be fairly large. A Board of 12 members would be adequate. For exercising supervision over the protected industries the Board should function as a whole. But for conducting investigations it should work in panels of three members.

The Fiscal Commission's recommendation that the members should be persons of high ability, integrity and impartiality—preferably with a knowledge of economics and practical acquaintance with business affairs—is a sound one and should be adopted. The Commission's recommendation that the Board should not be a body representing special interests such as industry, labour, importers is also equally well-conceived. The members of the Tariff Board should not have affinity for any particular interest but should act like a tribunal, assessing all the view-points expressed objectively and on the basis of the policy laid down. A person should, on his appointment as a member of the Tariff Board, cease to have any direct interest in any commercial enterprise and during his tenure of office he should be precluded from lending funds to any business or taking part in the floating or management of a commercial enterprise. Normal investments in stocks and shares should, however, be permissible. For a period of five years after his retirement from the Tariff Board, a person should be debarred from accepting a place of profit or a directorship in any commercial firm; but this should not preclude any appointment in a public corporation.

II. *Functions of the Tariff Board*

The Tariff Board should be entirely an advisory body. It should be competent to make recommendations to government for legislative and executive action but the final decision should rest only with the government. It should be open to the Tariff Board also to tender advice to protected industries whenever it deems it necessary to do so. The third aspect of the Tariff Board's work should be to give full publicity to the information which it might collect in the course of carrying out its legitimate functions except when the information is collected on the specific understanding that it will be kept secret. In addition to those prescribed by the Fiscal Commission (except investigations into combinations and monopolistic practices) the main functions with which the Tariff Board should be entrusted are set out below:

(1) To make recommendations at its own initiative for a reduction in the tariff or other forms of state aid.

(2) To obtain periodically information from the protected industries on a regular basis.

(3) To tender advice to the industries which have asked for and received protection.

(4) To examine the general economic and industrial situation in the country and to obtain reports from the planning authorities of the centre and the provinces.

(5) To publish: (a) reports of enquiries into individual industries applying for protection, including the evidence collected barring opinions and information of a confidential character; and (b) an annual report on the work accomplished during the year. The annual report should also contain a survey of general economic

and industrial conditions in so far as they have a bearing on fiscal policy and a report on the working, during the year, of every protected industry. The appendices of the reports should set out all factual and other information obtained from official and non-official sources, excluding information published elsewhere.

It should not be the function of the Tariff Board to investigate the prevalence of monopolistic tendencies and anti-social practices in any industry, since it should be the business of the Inter-State Commerce Commission to make such investigations with reference to protected and unprotected industries alike. After a case is referred to it by the Commission, however, the Tariff Board may examine how far a modification of the protection granted to an industry is called for in support of the non-fiscal measures to counteract monopolistic tendencies.

In order that the Tariff Board should be able to investigate the cases of industries which might ask for protection, expeditiously and on scientific lines and be able to perform the various other duties entrusted to it, it must have a well organized secretariat consisting of trained economists and statisticians. It must also have at its disposal the services of a number of technical advisers on whom it can rely for an unbiased assessment of the position of industries which might be referred to it for investigation from time to time. As the recommendations of the Board would largely be based on the costs of production of the indigenous industries and of the landed cost of foreign imports, the need of ensuring that the data for these calculations have been collected on scientific lines, is of primary importance. It is for this purpose that the necessity of having a well trained and adequate secretariat must be particularly emphasised.

The Tata Iron & Steel Co., Ltd.

SECTION 'C'

Question 21.—*Would you attempt a broad analysis of the effects of the actual policy pursued by the Government of the day on the growth and development of our major industries under the following heads:—*

(*a*) *Capital invested in the industry (paid up);*

(*b*) *Rated Capacity;*

(*c*) *Output;*

(*d*) *Employment of labour (Technical and non-technical);*

(*e*) *Wage bill (technical and non-technical);*

(*f*) *Earnings of management;*

(*g*) *Profits earned and distributed;*

(*h*) *Ex-works price and retail price?*

Question 22.—*Would you make a detailed analysis on the above lines particularly in respect of the following industries;*

(*i*) *Iron and Steel,*

(*ii*) *Cotton Textiles.*

(*iii*) *Sugar,*

(*iv*) *Paper,*

(*v*) *Matches?*

Please give your answer for the following periods:

(*a*) *at the time when protection was given;*

(*b*) *in* 1938-39.

(*c*) *in* 1948-49.

Answer.—Protection was first granted to the Indian iron and steel industry in 1924. The broad effects of Government policy on the growth and development of the industry under the different heads are, therefore, given below for the years 1923-24, 1938-39 and 1948-49:

(*a*) *Capital invested in the industry* (*Paid-up*).—The figures of paid up capital for the Tata Iron and Steel Company for the years 1923-24, 1938-39 and 1948-49 were:

Year	Rs.
1923-24	10,43,21,166
1938-39	10,47,07,018
1948-49	10,47,23,860

No additional capital was issued by the Company during the period. The Gross Block which stood at Rs. 20·41 crores in 1923-24 however increased to Rs. 26·69 crores in 1938-39 and to Rs. 39·83 crores in 1948-49. This expansion was achieved by prudent financial management and adoption of the sound policy of ploughing back the profits into the industry.

(b) *Rated Capacity.*—The figures of rated capacity for finished steel for the three periods are given below together with corresponding figures of actual production:

Year	Rated Capacity	Actual production (Good materials only)
	Tons	Tons
1923-24	200,000	163,000
1938-39	750,000	701,000
1948-49	850,000	661,000

On account of the heavy stress to which the plant was subjected during war years and the difficulty of obtaining replacement equipment from abroad, the capacity figure of 850,000 tons for 1948-49 is only nominal, the actual capacity being only about 750,000 tons.

The large increase in capacity since 1923-24 can only be attributed to protection and the constant efforts made by the Company to extend the size of the plant and improve its efficiency.

(c) *Output.*—We give below figures of output in respect of the three periods for pig iron, steel ingots and finished steel:

Year	Pig Iron	Steel Ingots	Finished Steel
	Tons	Tons	Tons
1923-24	443,000	235,000	163,000
1938-39	1,020,000	947,000	701,000
1948-49	917,000	904,000	661,000

The outputs reached during the war years were higher than is indicated by the above figures. The following are the figures of output year by year from 1939-40 to 1947-48:—

Year	Pig iron	Steel Ingots	Finished Steel
	Tons	Tons	Tons
1939-40	1,140,000	1,018,000	763,000
1940-41	1,180,000	1,084,000	816,000
1941-42	1,237,000	1,082,000	824,000
1942-43	1,106,000	1,001,000	720,000
1943-44	1,148,000	1,092,000	819,000
1944-45	860,000	954,000	735,000
1945-46	1,006,000	1,015,000	733,000
1946-47	1,075,000	1,029,000	742,000
1947-48	956,000	901,000	654,000

While the figures of output during the years 1940-41 to 1943-44 were near capacity, they show a considerable fall in later years on account of various factors which affected production such as shortage of coal and deterioration in its quality, shortage of essential raw materials, spares and stores, transport difficulties, deterioration in the condition of the plant resulting from inadequate repairs and maintenance, labour difficulties etc.

(d) *Employment of labour (Technical and Non-technical)*.—The following are the figures of total number of employees on pay roll (including Contractors' Labour) at Jamshedpur, Mines, Collieries and Agents' Offices at Bombay, Calcutta and Jamshedpur in the three periods:

Year	Jamshedpur	Ore Mines & Quarries	Collieries	Agents' Offices at Bombay, Calcutta & Jamshedpur	Total
1923-24 .	30,135	(Not available	(Run by Kilburn Co.)	119	..
1938-39 .	31,035	15,399	5,815	104	52,353
1948-49 .	41,750	15,144	12,748	218	69,860

The figures indicate the progressive increase in employment offered by the steady growth of the industry during the period of protection and since.

(e) *Wage Bill*.—The annual wage-bill of the Company comprising wages and salaries, production and attendance bonus and dearness allowance in the three periods was as shown below:—

Year	Rs. lakhs
1923-24	163·13
1938-39	220·88
1948-49	720·04

In addition, the Company paid to its employees by way of *profit-sharing bonus*, contribution to provident fund, retiring gratuities, etc. an amount of Rs. 86·66 lakhs in 1948-49 and about Rs. 60 lakhs in 1938-39.

The above figures do not take into account various other benefits and amenities granted to labour, such as cheap housing, free medical treatment and primary education, for all of which it would be difficult to give equivalent money figures.

(f) *Earnings of Management*.—It is necessary to define the exact scope of the term "Earnings of Management". We take it as referring to Managing Agents' Commission in the case of our Company and give below the figures of Managing Agents' Commission for the three periods:

Year	Rs. lakhs
1923-24	0·50 (minimum stipulated).
1938-39	40·53
1948-49	27·95

With effect from 1st July 1946, the managing agency of the Company was transferred from Messrs. Tata Sons Ltd. to Messrs. Tata Industries Ltd. and the rates of commission were reduced, the maximum rate of commission being reduced from 9 per cent. to 7½ per cent. of net profits. The Managing Agents pay 25 per cent. of the commission received to outside parties in consideration of financial assistance rendered to the Steel Company in the financial crisis of 1924-25.

(g) *Profits earned and distributed.*— The relevant figures for the three years are given below:

	1923-24	1938-39	1948-49
	Rs. lakhs	Rs. lakhs	Rs. lakhs
Gross profits for the year	31·82	510·95	530·50
Provision for :—			
Depreciation	30·00	100·00	155·00
Managing Agents' Commission	0·50	40·53	27·95
Profit sharing Bonus	..	52·50	41·62
Taxation	..	75·00	155·00
Net Profits	1·32	242·92	150·93
Transferred to Reserve Fund	..	Nil.	35·57
Dividends	..	266·66	137·19*

*Out of a total of Rs. 150 lakhs allocated to Dividend Reserve from the year's profits.

N. B.—The 'gross profits' exclude amounts brought forward from the previous years and income-tax recovered from dividends on preference shares for the previous years.

The large increase in profits from 1923-24 to 1938-39 is accounted for by the expansion of the industry during the period of protection and the general prosperity that set in the steel industry the world over since the passing of the depression in 1933.

(h) *Ex-works Price and Retail Price.*—The *ex*-works prices (for untested materials) for the three periods are mentioned below:

	1924 June/Sept.	1938-39	1948-49
	(Rs.	per ton)	
Merchant Bars	..	120	234
Bars (other sizes)	158	157	224
Structurals	156	159	224
Plates 3/8" & up	160	162	221
Black Sheets 11/14G	..	172	254
Galv. Corr. Sheets 24G (6'/10')	..	214	332

The retail prices to consumers in the three periods are shown below. Since July 1944, the selling prices for steel are under Government control and the prices for the year 1948-49 shown below are the issue prices (*ex*-Ports) to the ultimate consumers as fixed by Government:

Products (untested)	Retail prices f.o.r. Ports		
	1924 (May to October)	1938	1948-49
	Rs.	Rs.	Rs.
Merchant Bars	138	137	345
Bars (other sizes)	..	..	335
Structurals	133	..	335
Plates 3/8″ & up	158	..	332
Black Sheets (11/14G)	..	..	370
Galv. Corr. Sheets 24 G (6′/10′)	..	221	445

Question No. 23.—*(a) Please indicate the significant features, if any, in the structure and organization of the protected and assisted industries with respect to—*

(i) the size of the units;

(ii) their location;

(iii) the development of combinations, horizontal or vertical;

(iv) the developments of ancillary industries; and

(v) any other aspect that you may consider it necessary to mention.

(b) Do you think that the form or manner in which protection or assistance has been given to these industries has had anything to do with these features? Which of these features are in the interests of our economy and which are undesirable?

Answer: (a) (i) *Size of Units*: The Company's Iron & Steel Works are considered to be the largest single unit in the Commonwealth. A significant feature of the Unit is that it is fully integrated; the Company owns besides the Iron & Steel Works proper, mines and quarries supplying iron ore, limestone, manganese ore, etc., and also coal mines supplying about 50 per cent. of its coal requirements. The present rated capacity of the Steel Works is about 850,000 tons a year (nominal). On account of the heavy stress to which the plant was put during the war, the actual capacity at present is only about 750,000 tons. The following factors are principally responsible for the growth and development of the size of the Unit:—

(1) The original planning of the project providing for a gradual and continuous development of the size of the Works.

(2) The location in the centre of the various raw materials required.

(3) The fact that for a number of years the Company was the only steel producing Unit in the country.

(4) The policy of protection granted to the industry since 1924, which enabled the Company's products to compete successfully with imported steel and its Works to be continually developed.

All these factors have been responsible for the growth and development of the Works; and it would be correct to say that in the absence of any one of the factors, such growth and development would have been considerably impeded.

(ii) *Location*: The Works are situated at Jamshedpur in the Singhbhum District in Bihar, about 155 miles to the west of Calcutta. The significant features of this location are the proximity of the site to iron ore, coal, and limestone supplies, availability of water from the Subarnarekha and Khorkai rivers, on the confluence of which the works are situated, its easy access to rail road facilities as also comparative nearness to the port of Calcutta.

(iii) *Development of combinations, vertical and horizontal*: As the Steel Works were planned as an integrated concern from the very beginning, the question of combinations of a vertical nature with other companies has never arisen.

In regard to horizontal combinations, it may be mentioned that a working arrangement was entered into with the Steel Corporation of Bengal in 1938-39 in regard to the sale of certain common products. A pooling arrangement had also been entered with the Indian Iron & Steel Co. for pig iron. The Steel Co. has not entered into any other combinations, apart from the contracts which it has entered into with certain associated companies for the supply of steel, water and electric power.

The position in the industry to-day is that there are three main independent steel producing units *viz.* the Tata Iron and Steel Company Ltd., the Steel Corporation of Bengal and the Mysore Iron and Steel Works, besides a number of re-rollers at different places in India who roll ordinary steel products from billets and scrap which are either supplied by the main producers or imported from abroad. At present the production and distribution of iron and steel is planned and controlled by Government.

(iv) *Ancillary Industries*: The steel industry at Jamshedpur has stimulated the growth of a number of industries which are dependent on it for steel. Thus the Tinplate Co. of India registered in 1920, grew up in the vicinity of Jamshedpur as it could depend upon the Tata Iron and Steel Company for supplies of tin bars. The Indian Steel and Wire Products Ltd. owes its location near Jamshedpur mainly to the fact that it can obtain supplies of billets from the Tata Iron & Steel Company for manufacturing wires and rods. The Lightfoot Refrigeration Company set up a branch of its Oxygen factory at Jamshedpur mainly because it could count on the steel company to take up its supply of oxygen gas. The Jamshedpur Engineering and Machine Manufacturing Company which manufactures rolls and the Tatanagar Foundry which turns out castings have also sprung up in Jamshedpur because their products are in demand by the Tata Iron & Steel Company. The origin of the Tata Locomotive and Engineering Company which was started to undertake the manufacture of locomotive boilers, underframes and road rollers as also complete locomotives is largely due to the existence of the Tata Iron & Steel Co. which supplies it the requisite quantities of steel and has subscribed part of its capital. In fact, the Steel Company had originally intended to undertake the manufacture of boilers and locomotives as an extension of its own activities, following the successful undertaking of the manufacture of wheels, tyres and axles in its works. The proposal had, however, to be abandoned for various reasons (including the heavy capital expenditure involved) and the Steel Co. agreed to participate in the capital of the separate Company formed for the purpose and to supply it the necessary steel and other facilities like power and water. Two other industries which owe their existence at Tatanagar are the Indian Cable Company and the Indian Hume Pipe Company.

As an ancillary activity, the Steel Co. also manufactures agricultural implements in its own Agrico factory. During war time the Company commenced the manufacture of various kinds of special steels required for war purposes and to-day the manufacture of special steels has become one of its permanent manufacturing lines which may well become the basis of the development of a machine tool industry in India.

Apart from the specific industries, the origin and growth of which are mainly due to the existence of the steel industry, Indian engineering industry in general and the railways owe their growth in no small measure to the steel industry.

(v) *Any other aspect*: There is a belief current in certain circles that protection to the steel industry imposed an undue burden on the economy of the country. How ill-founded and mistaken the belief is will be apparent from a perusal of the note enclosed herewith (Appendix I) explaining the burden of protection to the consumers in the shape of protective import duties and the manifold benefits derived by the country from such protection. The benefits completely outweigh the so-called burden of protection.

(b) The establishment of the Steel Industry on its present basis and the constant additions and extensions made to the plant to increase the total steel producing capacity have been greatly assisted by the protection granted to the industry since 1924.

The form or manner in which the protection was given took the nature of bounties (for three years only) and protective import duties. It may be generally stated that the form of protection adopted was conducive to the development of engineering and ancillary industries and railways. Thus the comparatively low duty on structurals levied in 1924 was intended to keep the cost of steel to the consuming industries as low as possible. The bounties granted on rails and fish plates in the same year by way of additional assistance, as also the supplementary protection granted in the following year in the form of bounties, were intended to reduce the cost of steel to the consuming industries and to the railways. The introduction of the principle of differential duties since 1927 with preferential duties on imports from the U.K., which was the precursor of the principle of Imperial Preference subsequently embodied in the Ottawa Pact, had the same result of minimising the cost of protection to consumers of tested steel, such as railways, engineering industries, machinery manufacurers, public utility undertakings, etc.

In 1934, the protective duties on structurals and plates from the U.K., which are essential raw materials for engineering and public utility undertakings, and rails, fish plates and sleepers from all sources, required by the railways, were made equivalent to the ordinary revenue duties plus the proportionate countervailing excise duty on ingots. Billets which are used by the re-rollers were exempted from all duties except the countervailing excise duty on ingots.

Thus the form and manner in which protection has been given to the main steel industry has been such as to afford considerable assistance to the ancillary and engineering industries as also the railways. None of the other features in the structure and organisation of the industry mentioned in (a) above has had anything to do with the form or manner in which protection was given; nor are any of the above-mentioned features in the structure and organisation of the industry prejudicial or harmful to the interests of the general economy of the country.

There is, however, one aspect of the form and manner of protection to which we would like to make a reference here. The periods for which the different Tariff Boards recommended protection ranged from 3 to 7 years. The scale of protection required was determined after considering the expected

level of c.i.f. prices of foreign materials in India during the period for which protection was recommended and the fair selling prices for the products of the indigenous industry to give it a reasonable margin of profit. In the steel industry it has invariably happened that the estimates of c.i.f. prices and fair selling prices made by each of the Tariff Boards were upset due to developments which were not foreseen at the time of the Tariff Boards' enquiries. Thus, for example, while the scale of duties levied in 1924 was intended to remain in force for a period of three years it proved inadequate on account of further depreciation of continental currencies and appreciation of the rupee in terms of sterling. Within six months of the grant of protection, therefore, the Tariff Board had to be asked to make a fresh enquiry to recommend additional protection.

Again, while the protection granted in 1927 was intended to remain in force for a period of seven years an increase in the rate of duty on galvanised sheets from Rs. 30 to Rs. 67 per ton had to be sanctioned in 1930 on account of a reduction in the import prices of galvanised sheets below those estimated by the Tariff Board. In the same year, on account of the lower offtake of rails by the railways, which caused a considerable increase in the works costs and a reduction in the profits, the fair selling price of rails had to be increased from Rs. 110 to Rs. 130 per ton.

The Tariff Board could not have anticipated in the year 1927 the world trade depression which set in in the year 1929 and lasted upto 1933, causing a world wide reduction in the output, consumption and prices of steel. Again the major strike which took place in 1928 in the Steel Company's Works at Jamshedpur considerably reduced production, increased the works costs and caused considerable reduction in profits, thereby retarding the Company's development plans.

The time lag which invariably occurred between the occurrence of a disturbing factor and the sanction of Government of suitable remedial measures, on the recommendations of Tariff Boards appointed for the purpose, caused needless loss to the industry and precluded it from deriving the full benefit of protection. Much swifter action on the part of Government is necessary to see that protection granted to an industry does not at any stage prove inadequate

We might also mention an instance in the history of protection to the steel industry, when Government, for reasons known to itself, saw fit to curtail the measure of protection below what was recommended by the Tariff Board after a detailed enquiry. In June 1925 the Tariff Board had recommended a bounty at the rate of Rs. 18 per ton on the weight of ingots produced for a period of 18 months, subject to a maximum of Rs. 90 lakhs. Government, however, sanctioned a bounty at the reduced rate of Rs. 12 per ton for a period of 18 months, subject to a maximum of Rs. 60 lakhs

On account of these and other factors, the protection or assistance that the industry actually enjoyed during the period 1924—33, was far below that recommended by the different Tariff Boards. As a consequence the Company was not in a position to pay any dividend on ordinary and deferred shares for the entire period from April 1922 to March 1935, except for a dividend of Re. 1 per ordinary share paid for the year 1926-27. For the period April 1922 to March 1925 and, again, from April 1928 to March 1930 even the second preference shareholders had to go without any dividend.

The Steel Company was, however, able to a considerable extent to make up for the past losses after 1933 by which time the world depression had passed and definite recovery had set in in the world prices of steel. The formation

of the international steel cartel on the Continent as also the armament manufacturing programmes adopted by the European countries since 1937, further contributed to the general prosperity of the industry the world over, in which the steel industry in India also shared.

Question 24.—If you consider that the undesirable features mentioned, if any, were due to any defects or deficiencies in the control exercised by Government over the protected or assisted industries, please point out such defects or deficiencies

Answer.—As mentioned in answer to Question 23(b) there are no undesiraole features in the structure and organisation of the steel industry in India.

Till the outbreak of war, when protection for all practical purposes ceased to be effective, Government did not exercise any control over the industry. None of the *ad hoc* Tariff Boards laid down any conditions to the grant of protection, except that the industry should reduce its works costs by effecting technical improvements. This condition the Company always fulfilled to the satisfaction of the Tariff Boards and the Government.

Question 25.—To what extent has the protection or assistance afforded to an industry resulted in—

(i) *its progressive mechanization;*

(ii) *the introduction of new economies and other technical improvements; and*

(iii) *the optimum utilisation of indigenous raw material and bye-products?*

Please illustrate with examples drawn from your knowledge or experience.

Answer.—The Company has all along followed the policy of progressive mechanisation and the introduction of technical improvements with a view to reducing costs of manufacture. The success of the policy is borne out by the fact that today the costs of production in India can be considered truly competitive.

Barring the war period, when there was considerable difficulty in importing plant and machinery from abroad, the Company has consistently adopted the policy of replacing worn out and obsolete units by new units of improved design. This process of continual replacements of obsolete and worn-out units is largely responsible for improved efficiency and reduced costs. Such a policy would not, however, have been possible if the industry had been weighed down in its early stages of development by cheap imports from abroad. As examples of the old units replaced by new units may be mentioned the old coke ovens, "A" Blast Furnace, Blooming Mill, Rail Mill, hand-fired boilers, sulphuric acid plant, etc.

Of the various technical improvements effected in the plant from time to time may be mentioned the following:

(1) Installation of coal-mixing bunkers in June 1935, which reduced the cost of handling coking coal, facilitated blending and enabled better control of the coke plant. The Company is at present installing a coal washing plant at its Jamadoba Colliery in order to improve the quality of the coal by reducing the ash content and thus reduce the consumption of coal in the Blast Furnaces.

(2) Diversion of boilers Nos. 3 and 4 in Boiler House No. 2 from coal to blast furnace gas as a measure of fuel economy in 1946-47.

(3) Installation of coke-breeze-fired boilers in 1944-45 as a measure of fuel economy.

(4) The use of more wind in the Blast Furnaces, use of limestone instead of dolomite as a flux, installation of gas cleaning plant and gas holder to reduce consumption of coal and to ensure more efficient fuel distribution.

(5) Increased proportion of scrap to pig iron in the materials charged in the open hearth furnace.

(6) The construction of an ingot mould yard at the O. H. Furnace in October 1941 for the cleaning and setting of moulds and an ingot stockyard with an overhead crane in November 1941 for the handling and stocking of hot ingots.

(7) Installation of normalising plant in the Plate Mill in 1935-36.

(8) Changes introduced in 1947-48 in the process of pickling and annealing at the Sheet Mills resulting in increased production and reduced costs.

(9) Complete re-organisation of the shops, revamping of old machine tools and installation of new machines in Machine Shops.

(10) Installation of a chamber kiln at the magnesite brick plant in 1942-43 in order to double the output of dead-burnt magnesite.

The Company has at present under consideration various renovations and improvements to plant recommended by expert foreign consultants, consulted by the Company for the purpose.

(iii) Optimum utilisation of indigenous raw materials and by-products.

The industry obtains all its raw materials from within the country and utilises them to the maximum extent possible. But for the existence of the steel industry a large part of the raw material resources would have remained unexploited.

All the by-products which can be recovered in the manufacture of iron and steel are recovered by the Company and either consumed by itself or marketed. During the process of carbonisation of coal, large quantities of gases are liberated from the coke ovens, which contain valuable by-products like coal tar, ammonia, benzol and its derivatives. At the Company's works, these by-products are separated from the gases and utilised for suitable purposes. Ammonia in the coke oven gas is converted into ammonium sulphate and the latter is sold as a fertiliser. Motor benzol and nitritable toluene are obtained from the Benzol Plant which was set up during the war time on the Company's initiative, Government being prevailed upon to bear the capital expenditure involved. The plant is maintained and operated by the Steel Co. although Government pays the operating and maintenance expenses. Negotiations are in progress with Government regarding the purchase of the plant by the Company. Small quantities of other fractions such as benzene, xylene and solvent naphtha, have also been produced at different times. Motor benzol is supplied to the motor companies in India which use it in automobiles after mixing it with petrol. Toulene was used exclusively for the manufacture of high explosives during the war. Coal tar is sold to distillers who obtain further valuable products therefrom.

The Company obtains by-products from its galvanising process also, such as ferrous sulphate and iron oxide pigment, and flux skimmings and zinc dross which are sold on the market.

Question 26.—Has the protection or assistance received by our industries induced any substantial increase in the supply of—

(a) technical personnel required by the industries;

(*b*) *skilled labour;*

(*c*) *semi-skilled labour;*

(*d*) *a stablized industrial labour force?*

Answer.—(a) *Technical personnel required by the industry.*—The protection granted to the industry has undoubtedly enabled it to increase the supply of the technical personnel required by it. In earlier years the industry had to import technical personnel from abroad. With a view to bringing about a progressive Indianization of the technical personnel, the Company set up a Technical Institute in Jamshedpur in 1921 for the training of Indians for employment in responsible technical posts. Ever since its inception the Institute has turned out a regular steady stream of trained metallurgists and engineers to meet the requirements of the industry and has undoubtedly enriched to some extent the meagre resources of the country in specialised technical personnel required by the steel industry and heavy industry generally. Thus the total number of covenanted employees which stood at 229 in 1924 now stands at only 18. The Company also has a scheme under which *ex*-students of the Institute and others who show sufficient competence in their respective spheres of work are sent abroad to obtain further experience in other steel works.

(b) & (c) *Skilled and semi-skilled labour.*—The existence of the steel industry and its progressive expansion under protection led to the creation and expansion of a labour force which had acquired a degree of skill and specialisation in the industry. The establishment of the Technical Institute with a trade apprenticeship course for semi-skilled employees and the running of a Technical Night School for the employees have further assisted in the creation of a large force of skilled and semi-skilled employees to fill positions of various degrees of skill and responsibility in the Works.

(d) *Stabilised industrial labour force.*—While the continuous expansion of the industry under protection led to a steady increase in the labour force, it also contributed to its stabilisation. Labour at Jamshedpur is thus less casual than in most other centres of industry, the labour turnover at Jamshedpur being comparatively low. Security of employment, liberal terms of service, the establishment of a 'steel town' with every conceivable municipal amenity, the provision on a liberal scale of various welfare amenities such as free primary education for employees' children, free hospital and medical treatment, housing at sub-economic rents are for the most part responsible for the creation of a stabilised labour force at Jamshedpur. The establishment of the trade apprenticeship scheme and now the Training Centre have also assisted in the process of stabilisation, as it enables employees to look forward to securing more skilled jobs after acquiring a certain amount of preliminary training.

Question 27.—To what extent, if any, has industrial research been initiated and fostered by the protected and assisted industries?

Answer.—The Steel Company has always realised the importance of research to the development of the iron and steel industry, and towards that end, undertook in the year 1936-37 the construction of a control and research laboratory at Jamshedpur which was completed in September 1937. Although the construction of the laboratory was under consideration since 1926, the work could not be taken up until after the Company had stabilised itself.

Since then the Company has initiated research in various directions and at the outbreak of war, when imports of certain special types of steels practically ceased, the Company was the only steel concern in India, possessing the necessary experienced personnel, equipment and research organisation to which the Government could turn for assistance for their requirements of special

teels for war purposes. As a result of extensive research conducted during the war years, the Company was able to develop and supply a wide range of special alloy steel products for direct war demands such as bullet-proof armour plates, high speed steel for machine tools, chrome-molybdenum alloy steel for the manufacture of the shot, nickel-chrome steel rounds for armour-piercing shells, special deep drawing quality steel for cartridge cases and for rifle and machne gun magazines, stainless steels for surgical instruments, etc.

In addition to meeting many pressing army and ordnance requirements, the manufacture of alloy and special steel for civilian needs was also successfully carried out. Several types of magnet steels were successfully produced. High Silicon sheets were made for the electrical industries.

With a view to reducing the dependence of the Indian steel industry on foreign supplies of ferro-alloys during the war years, the production of ferro-alloys like ferro-tungsten, ferro-vanadium, ferro-boron and ferro-titanium was developed.

The lack of fundamental data on Indian clays and other refractory materials had been a great drawback in the past. Since the starting of the Company's research laboratories, this deficiency has been made good to some extent and much useful information has been collected systematically and passed on to refractory manufacturers to enable them to improve the quality of bricks produced by them. Indian magnesite was at one time considered to be unsuitable for use in basic steel furnaces. The Company's investigations on Indian magnesite have now made it possible to produce its entire requirements of finished magnesite locally, the Indian magnesite being, in fact, preferred now to the foreign product. As the result of research carried out in this connection, the Company has developed the production of metal-cased magnesite products, chrome magnesite brick, silica brick, etc. An entirely new process has been developed for the manufacture of mullite refractories using cyanite, sillimanite and andalusite, India having practically a monopoly of the first two. The Company has also developed superior types of mortars for high temperature work, which can now be made locally and do not have to be imported as before.

Among the recent studies undertaken by the metallurgical department of the Company were those on strain ageing characteristics of steel made by the Open Hearth and Duplex processes, the use of electrolytic manganese in stainless steel compositions, the diffusion of aluminium in copper and iron, the development of thermo metallurgical process for the manufacture of ferro-vanadium and ferro-titanium, and on coal preparation by preferential comminution and separation of petrographical constituents. The Chemical department of the Company conducted researches, on spectrochemical analysis of ferrous alloys by the medium quartz spectrograph, spectroscopical determination of carbon in ferrous alloys, analysis of metal and slag from the reduction of vanadium bearing iron ore, and semi-micro analysis of a bright coloured constituent separated from blast furnace.

The Coal Blending and Coking Research Sub-Committee set up by the Council of Scientific and Industrial Research, has been working under the administrative control of the Steel Company and this sub-committee has done intensive researches into the properties of coal and coke and made useful investigations into the possibility of using for industrial carbonisation purposes, inferior grades of coal after suitable blending with better grades of coal. In view of the shortage of good quality coking coal resources in the country, this sub-committee's work is of obvious importance.

From the instances given above, it is clear that the Company has undertaken and developed research on a very extensive scale, particularly since the outbreak of the war and has achieved considerable success in this direction.

Question 28.—Do you consider that the revenue tariffs imposed in the past have had any appreciable effect on the growth and development of our industries and on the course of our export and import trade? If so, would you illustrate your finding with some examples drawn from the trade or industry of which you have knowledge or experience?

Answer.—From 1924 upto 31st March 1947 most of our iron and steel products were protected by the levy of protective import duties of varying extent. Only from 1st April 1947 the protective duties were replaced by revenue duties. These revenue duties on iron and steel, which are levied by Government for revenue purposes only, have had no effect on the development of our industries or on the export and import trade of the country.

Since 1934, Government levied an excise duty of Rs. 4 per ton on steel ingots produced in the country for revenue purposes and levied a corresponding countervailing duty on imported steel materials. The excise duty has also not affected the industry adversely in any way and has given a steady source of revenue to Government.

Question 29.—(a) What were the broad effects of the Tariff policy pursued by Government between 1923 and 1939 on the volume, character and geographical distribution of our (i) import, and (ii) export trade?

(b) To what extent was the relative importance of our domestic and foreign trade affected by this policy during this period?

Answer.—As far as the steel industry is concerned, the tariff policy pursued by Government during the period 1923 to 1939 consisted mainly in the levy of protective import duties on different steel materials on the recommendations of *ad hoc* Tariff Boards appointed for the purpose. The duties effectively protected the industry from cheap imports and helped it to grow from the stage of infancy to the full maturity it attained by 1939. But for protection, the industry might have succumbed to dumping into India of steel from continental countries possessing a well-established steel industry of their own and the country might have lost a basic and strategic industry of overwhelming national importance and would have lost the manifold incidental advantages flowing from it.

A feature of the tariff policy followed by Government during the period is the preference accorded to British industry in allowing entry of British products at lower rates of revenue duty than those imposed on continental products. Even in the matter of protective duties on iron and steel products, the principle of differential scales of duties as between Britain and the Continent was introduced in 1927 and was to some extent justified by the comparatively higher prices of British products. The policy of preferential duties for British products inevitably led to the expansion of India's import trade with the U. K. at the expense of Continental countries. One advantage which can legitimately be claimed for the policy of differential duties is that it reduced to some extent the cost which the consumers had on an average to pay for the imports. A policy of uniform duties on all imports would have meant that the consumers in India of protected steel materials would have been required to pay much high import duties on British imports at rates which were appropriate to the low prices of Continental products.

An outstanding example of the principle of Imperial Preference followed by Government in its tariff policy during the period is the supplementary Agreement under the Ottawa Pact entered into with U. K. in 1932. This provided that while sheets not made in the U. K. would be subject to an import duty of Rs. 83 per ton in India, those made in the U. K. from non-Indian sheet bar would be subject to a duty of Rs. 53 per ton and those made in the U. K. from

Indian sheet bar to an import duty of Rs. 30 per ton. The agreement gave the necessary measure of preference to the British manufacturer to enable him to compete with the Continental sheet manufacturer in the Indian market without loss and also gave an inducement to him to extend his use of Indian sheet bar.

The agreement further provided that in return for the favourable tariff treatment granted to British galvanised sheets imported into India, the U.K. would allow the free import of 30,000 tons per annum of Indian foundry iron and $22\frac{1}{2}$ per cent. of the requirements of the free market for basic iron, subject to a minimum of 700,000 tons a year. By agreement the supply of basic iron was left to the Steel Company and of foundry iron to other Indian companies.

The arrangement regarding the export of pig iron worked satisfactorily, but that regarding sheets was not free from complications. The Steel Company had entered into a consequential agreement with the Oriental Steel Company representing British producers, which provided that as far as possible, the British manufacturers would use Indian steel for the manufacture of galvanised sheets for India, subject to a monthly maximum of 7,000 tons and that the tonnage of sheets exported to India from the U. K. would be regulated according to the Tata Company's estimate of the Indian demand. Actually, however, as the Indian bars supplied were not always suitable in size for the different gauges of sheets made by the British manufacturers and there were other temporary complications arising from the effect on the market prices and demand, of merchants' anticipating the agreement, the despatches to the U. K. averaged only about 2,500 tons a month instead of the 7,000 tons a month as anticipated.

The arrangements under reference were discontinued in 1934 in accordance with the recommendation of the Tariff Board, as the need of the Steel Company for this particular outlet for its steel no longer existed to the same extent, the Company having extended its capacity for the production of sheets, and the growth of the re-rolling industry having provided another outlet for its production of steel. The Iron and Steel Duties Act, 1934, however, granted preference on galvanised sheets of British manufacture, and, in return for this preference, an assurance was obtained from the Government of the United Kingdom regarding the continuance of free entry of Indian pig iron and the grant of concessional treatment of Indian manganese in that country. In respect of all imports of iron and steel other than structurals and plates of British origin, on which no protective duties were imposed, a preferential margin of 10 per cent. was allowed to the U. K. by increasing the alternative revenue duty to 20 per cent. in the case of non British imports, an *ad valorem* rate of 10 per cent. being taken as the minimum revenue rate for iron and steel.

In conclusion it may be mentioned that apart from the development of the Tata Iron and Steel Co., the coming into existence of the Steel Corporation of Bengal and a number of re-rolling firms was also due to the protection granted to the industry.

Question 30.—Do you think that the development of any of the protected industries was hampered by the policies pursued or the measures adopted by Government with regard to matters other than protection? Please give examples.

Answer.—As far as the steel industry is concerned we do not consider that during the period of protection the development of the industry was hampered by any measures adopted by Government with regard to matters other than protection. We do not, however, take into account in this connection the measures adopted by Government to deal with the abnormal situation during the war years especially as protection had ceased to be effective on the outbreak of war.

APPENDIX I

Burden of Protection

The grant of protection to the Indian Steel Industry between 1924 and 1947 is sometimes considered as having imposed an undue burden on the Indian consumer. It is assumed that but for protection the foreign supplier of steel would have charged, and the Indian consumer would have paid, for steel supplies only the c. i. f. landed prices wtihout the addition of the protective duty.

2. The assumption is untenable, since if there had been no steel industry in India, the foreign suppliers would have charged, subject to conditions of international competition, the maximum prices they could have obtained, which would have been higher than c. i. f. landed prices without duty actually charged by them during the period of protection. The existence of international cartels, as in the case of the steel industry, had eliminated international competition to a large extent. Not only, therefore, did the consumer not bear any burden on account of protection but actually got his steel, including imported steel, at a lower price than what he would have been required to pay in the absence of the indigenous steel industry.

3. Protective duties were introduced in 1924 and continued on the statute book till 31st March, 1947; protection had, however, ceased to be effective since the outbreak of war in 1939.

4. Owing to the "discriminating protection" granted by Government during this period, protective duties were fixed at as low a level as possible. Certain categories of steel like billets were made exempt from all duties—protective or revenue—excepting the countervailing excise duty, from 1934. Protective duties on rails, fish plates and sleepers from all sources and structurals and plates from the United Kingdom were only equivalent to the revenue duties. The consumer did not bear any burden in respect of these items.

5. We have made detailed calculations, which show that during the period 1924-25 to 1938-39 the benefits of protection to the Tata Iron and Steel Company calculated on the basis of the difference between the enhanced duty provided as a result of protection and the previous revenue duty was Rs. 10·61 crores (as per statement annexed—Appendix II); against this the Company paid excise duty during this period amounting to Rs. 1·58 crores; the net gain to the Company on account of protection was, therefore, only Rs. 9·03 crores. During the same period, the Government of India obtained Rs. 10·76 crores in the shape of the difference between the protective duties and the ordinary revenue duties and through the excise duty.

6. Even before protection was first granted, during the first World War the Tata Iron and Steel Company had supplied approximately 292,000 tons of steel to Government in the shape of rails, shell steels and other materials at an average base price of less than Rs. 150 per ton. As the British Steel Works were busy with urgent munition works of their own, Government could have secured their requirements from the United States only, which would have cost them at least Rs. 200 more per ton. On the supply of 292,000 tons of steel, the Government had made a saving of about Rs. 6 crores.

7. Similarly, during World War II the Tata Iron and Steel Co. alone supplied to Government three million tons of steel at war contract prices, and, but for the existence of the Steel Company, the steel materials could have been obtained only from the U. S. A. at an average price of Rs. 200 more per ton. This would have cost the Government about Rs. 60 crores more than what they paid to the Steel Company. To mention but one instance, 20,000 tons of bullet-proof armour plates were supplied by the Tata Iron and Steel Company

at a price of Rs. 900 per ton to Government against the price of Rs. 2,000 per ton charged by the British manufacturers and Rs. 2,500 per ton charged by the American manufacturers. On this supply alone Government benefited to the extent of nearly Rs. 2·2 crores.

8. The current prices of imported steel materials in India are, on an average, Rs. 200 more per ton than the price paid to the main producers in this country. On a current production of about one million tons per year, therefore, the Indian consumers of steel including the Government save annually a sum of Rs. 20 crores.

9. The consumers in the country have received back for the protective duties on steel paid by them, several times the amount through the low prices at which steel was supplied to them before, during and after the period of protection.

APPENDIX II.

	Benefit derived by the Company on account of protection			Additional revenue derived by Government from import duties on protected iron and steel materials †
	Benefit due to protection*	Bounty	Total	
	Rs. lakhs	Rs. lakhs	Rs. lakhs	Rs. lakhs
1924-25	18·7	65·2	83·9	120·3
1925-26	36·2	70·9	107·1	154·5
1926-27	46·9	72·6	119·5	153·9
1927-28	40·3	..	40·3	136·4
1928-29	20·0	..	20·0	117·5
1929-30	48·1	..	48·1	93·7
1930-31	58·0	..	58·0	75·3
1931-32	84·2	..	84·2	67·2
1932-33	94·0	..	94·0	63·2
1933-34	100·6	..	100·6	42·6
1934-35	92·8	..	92·8	43·2
1935-36	77·7	..	77·7	30·4
1936-37	61·3	..	61·3	21·2
1937-38	21·6	..	21·6	5·0
1938-39	51·5	..	51·5	2·3
Total .	851·9	208·7	1060·6	1126·7

Excise duty paid :—

	Rs. lakhs
1934-35 . . .	14·7
1935-36 . . .	35·2
1936-37 . . .	34·1
1937-38 . . .	35·3
1938-39 . . .	38·2
Total .	157·5

Less Excise duty paid	157·5
	903·1

Plus Excise duty paid	157·5
	1284·2
Less Bounty paid to the Co.	208·7
NET	1075·5

* The benefit to the Company is calculated on the basis of production of protected materials and the difference between the protective duty and the ordinary revenue duty on such materials.

† The additional revenue derived by Government is calculated on the basis of the imports of protected materials and the difference between the protective duty and the ordinary revenue duty on such materials.

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